VESSEL SERVICE TO DUTCH HARBOR

HEARING

BEFORE THE

SUBCOMMITTEE ON MERCHANT MARINE

OF THE

COMMITTEE ON COMMERCE, SCIENCE, AND TRANSPORTATION

UNITED STATES SENATE

NINETY-SEVENTH CONGRESS

FIRST SESSION

ON

S. 1682

TO ALLOW VESSELS IN THE FOREIGN TRADE RECEIVING SUBSIDY TO TRANSPORT CARGO BETWEEN THE ISLAND OF UNALASKA, ALASKA, AND THE CONTIGUOUS UNITED STATES DURING A VOYAGE IN THE FOREIGN TRADE

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VESSEL SERVICE TO DUTCH HARBOR

FRIDAY, OCTOBER 16, 1981

U.S. SENATE,
COMMITTEE ON COMMERCE,
SCIENCE, AND TRANSPORTATION,
SUBCOMMITTEE ON MERCHANT MARINE,
Washington, D.C.

The subcommittee met, at 9:35 a.m., in room 235 of the Russell Senate Office Building, Hon. Slade Gorton (chairman of the subcommittee) presiding.

OPENING STATEMENT BY SENATOR GORTON

Senator GORTON. The meeting will come to order.

This hearing is convened to consider bill S. 1682 which would amend the Merchant Marine Act of 1936 to permit vessels operating in the U.S. foreign trade with subsidies to transport domestic cargo between the island of Unalaska, Alaska and the contiguous United States during a voyage in foreign trade. In return for this privilege, the bill would require the subsidized carrier to repay subsidy for the portion of its revenues attributable to the domestic cargo.

The bill and the hearing are motivated by a proposed agreement between American President Lines, Ltd., a subsidized carrier operating in the foreign trade between Seattle and the Orient, and the Aleut Alaska Shipping Co., a wholly owned subsidiary of the Aleut Corp., an Alaskan Native corporation whose shareholders reside in the Aleutian chain and in western Alaska. APL would provide a line-haul service in the domestic trade between Seattle and Dutch Harbor at Unalaska Island while AASC would provide a feeder service to outlying points in the Aleutian chain in western Alaska.

Currently, a vessel receiving subsidy under the Merchant Marine Act may not engage in the coastwise or intercoastal trades with several narrow and specific exceptions, such as trade through Hawaii. Even in a foreign trade that is excepted from the normal rule, the carrier must receive written permission from the Maritime Administration on a finding that its service will not unfairly compete with any carrier operating exclusively in the domestic trades.

These and other provisions of the 1936 act are expressive of a basic congressional policy that the subsidy authorized is intended to assist U.S.-flag carriers to compete with lower cost foreign-flag carriers in foreign commerce, and the U.S.-flag carriers receiving public funds should not be permitted to utilize that advantage to compete with unsubsidized U.S.-flag carriers in the domestic coastwise trades from which foreign carriers are excluded.

This bill would provide an additional exception through Unalaska Island on a subsidized voyage in the foreign trade. From the mail we have received and from the extensive number of witnesses this morning, it is evident that the proposed service is controversial. It may be a difficult issue for us to decide, judging from the varied conclusions of three studies and the rigorous debate among carriers within the western Alaskan community.

Before a decision can be made we should know whether existing subsidized carriers are fully meeting the service requirements of the Aleutian region and its population. We will also want to learn more precisely what competitive impact the bill would have among vessel carriers serving Alaska and to insure that competition in the trade is not unfair.

I should like to thank Senator Stevens for his cooperation in organizing this hearing. The trade to Alaska is, of course, vital to the economy not only of Alaska, but also of Washington where most of the transportation originates. I look forward to working with Senator Stevens to determine the most appropriate Federal policy regarding this trade. Senator Inouye, of course, is also going to be extremely helpful in this matter as he represents, in Hawaii, a State with some experience in this regard.

[The bill follows:]

[S. 1682, 97th Congress, 1st Session]

A BILL To allow vessels in the foreign trade receiving subsidy to transport cargo between the island of Unalaska, Alaska, and the contiguous United States during a voyage in the foreign trade.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That the Merchant Marine Act, 1936, as amended (46 U.S.C. 1101 et seq.) is amended as follows:

(1) Section 506 (46 U.S.C. 1156) is amended by inserting after the word "Hawaii" the following: ", the island of Unalaska in the State of Alaska".

(2) Section 605(a) (46 U.S.C. 1175(a)) is amended by inserting after the word "Hawaii" the following: ", the island of Unalaska in the State of Alaska".

Senator Stevens, do you have an opening statement?

OPENING STATEMENT BY SENATOR STEVENS

Senator **Stevens**. Thank you very much, Mr. Chairman. I want to thank you particularly in view of your recent personal loss, for taking the time to chair this hearing today, and I have a statement for the record.

As I see the issues that are before the committee, the burden is on the Aleut Corp. and the American President Lines to make the case for the waiver they have suggested. There is ample precedent, I am convinced, for the action as the 1936 act has allowed vessels constructed for the foreign trade to stop at Hawaii, Guam, Midway, and other territorial islands.

The question before the committee is whether that precedent should be extended to an island of Alaska in the Aleutian chain. Now, there are distinctions which I will point out, but as a practical matter, I am convinced that those who have proposed the exemption are entitled to a full hearing on the question and the importance of the issue is evidenced by the response both within the merchant marine community, and the localities, and corporations that are here and represented very well today.

There are a variety of leaders from my State that are here, and I am sure you will identify them as they come forward. It is my feeling that the total ramifications of the proposed waiver ought to be examined by the committee and that the point you mentioned is one of the key points, and that is is the service that is needed by this developing portion of Alaska, the great Aleutian chain, is the service that exists today going to be expanded to meet the needs of this area? If it is not, then I think a waiver must be granted because it is apparent to me that this is an extremely rapidly developing area, and most people don't realize it.

Thank you very much.

Senator GORTON. Thank you, Senator Stevens. We have a statement from Senator Murkowski, who has a conflict and wasn't able to attend. His statement will be included in the record.

[The statement follows:]

STATEMENT OF HON. FRANK H. MURKOWSKI, U.S. SENATOR FROM ALASKA

Mr. Chairman, the subject of this hearing is an important one for Alaska. Adequate shipping service to Western Alaska is vital to the personal and economic wellbeing of the people who live in that part of our State.

There are different views as to the present quality of service to Dutch Harbor, and as to the advisability of the proposed amendments to the Merchant Marine Act of 1936. It is my hope that those who present testimony on these matters will provide specific information which will assist the Congress in evaluating the existing service and what, if any, improvements are necessary. One of the questions which must be examined is the impact of the American Presidential Lines' entry into the Dutch Harbor-Seattle route on the quality and cost of shipping to smaller outlying towns in the Aleutians. These communities are totally reliant on feeder lines and service must not be allowed to deteriorate.

I want to express my appreciation to Senator Gorton for holding this hearing. I am confident that it will help us understand more fully the shipping needs of Western Alaska and some possible improvements in existing conditions.

Senator GORTON. Senator Inouye.

OPENING STATEMENT BY SENATOR INOUYE

Senator INOUYE. Thank you very much, Mr. Chairman.

The Merchant Marine Act of 1936 requires that vessels built with construction differential subsidy "shall be operated exclusively in foreign trade." The act contains essentially the same requirement relative to operating-differential subsidy. It excepts from these requirements four types of voyages in our foreign trade, which include specified domestic legs. S. 1682 would, in effect, add a fifth type of voyage on which a subsidized vessel could be operated in our coastwide trade as part of a voyage in foreign commerce.

The U.S.-flag carriers engaged exclusively in our essential foreign trades are eligible for the construction and operational differential subsidy in order to allow them to compete with foreign-flag carriers on an equal basis. At the time Congress created the subsidy programs, it recognized that subsidized carriers would have an unfair competitive advantage when they competed with nonsubsidized carriers in our domestic trades, and that permitting such competition could result in Federal funds being used to stifle or eliminate these nonsubsidized carriers. Accordingly, with four narrow exceptions, it prohibited subsidized carriers from competing with unsubsidized carriers in our domestic trades.

The proponents of S. 1682 maintain that the unique geographical position of western Alaska warrants an exception to this general prohibition because existing ocean transportation is inadequate to meet the requirements of small communities on a regular, reliable basis. At a time when the state of our merchant marine is precarious at best, and inasmuch as the administration is studying alternatives to the present subsidy programs, I believe we should be especially cautious in recommending any changes in the law which have the potential of seriously disrupting our domestic waterborne commerce.

On the other hand, Mr. Chairman, we cannot ignore the compelling water transportation needs of any one of our 50 States. Therefore, I would hope that the hearings today will furnish the committee with information which will enable us to make whatever recommendations are appropriate under the circumstances.

I thank you very much.

Senator GORTON. Thank you, Senator Inouye.

As we have roughly 25 witnesses today, we must have all of you on relatively limited time schedules amounting to 15 minutes for each of the panels and 5 minutes for each of the individual speakers. With that, we will begin with panel No. 1, representing APL and the Aleut Corp., Messrs. Krukoff and Hubbard. Would you proceed?

STATEMENTS OF AGAFON KRUKOFF, JR., PRESIDENT, ALEUT CORP.; AND WILLIAM B. HUBBARD, SENIOR VICE PRESIDENT, OPERATIONS, AMERICAN PRESIDENT LINES, LTD.

Mr. KRUKOFF. Thank you very much, Mr. Chairman and members of the committee, for the opportunity to present our position. I am Agafon Krukoff, president of the Aleut Corp., as well as president of our subsidiary, the Aleut Alaska Shipping Co. I have with me today Mr. William Hubbard, senior vice president, American President Lines (APL), Oakland. I especially want to thank the chairman, in view of his personal loss, for taking the time to go through this proceeding.

While we have presented to the committee written testimony jointly presented by APL and Aleut Alaska, we would like to, aside from that, present a presentation in the form of visual aids.

[Slides shown.]

Mr. KRUKOFF. The contents of our presentation is in seven parts. First, we would like to point out the existing service today in Dutch Harbor. The other point we would like to get into a little deeper is the Aleut Alaska/APL proposal. Most important, the third point here, is to show, to indicate, to show you the need for better transportation in western Alaska and the Aleutians. Also, why our proposal will provide that better transportation. We would like to discuss in some depth the policy of the Merchant Marine Act of 1936 and how it should apply also to western Alaska. We will discuss at some length the subsidy issue and present our conclusions after having made those points.

Existing service to Dutch Harbor primarily includes four carriers. One is the Aleut Alaska Shipping Co. and Western Pioneer. They are both companies that operate with small break-bulk vessels to the Aleutians, and they are not—neither Aleut Alaska nor

Western Pioneer are common carriers, operating partly with exemption to the shipping law that allows fisheries vessels to serve fisheries-related communities in the Aleutians. We have also Foss Alaska Lines, primarily involved with the military contract; and Adak Sea-Land, operating a feeder from Kodiak to Dutch Harbor. Those are primarily the four that are serving Dutch Harbor today.

Shown here on this screen is a picture of one of our vessels, the *Snobird*, a small break-bulk carrier not unlike the vessels of Western Pioneer, not a common carrier, high costing, very slow. The turnaround time for that vessel to go to the Aleutians and back to Seattle is about 1 month.

Mr. **Hubbard**. Mr. Chairman and members of the committee, American President Lines welcomes the opportunity to appear before you today, and Mr. Chairman, we, too, appreciate, under the special circumstances, your taking the time.

Shown here is a Sea-Land vessel engaged in the line-haul service between Seattle, and Anchorage, and Kodiak, triangular run. You will observe that the ship needs sophisticated, shore-complex cranes as it is a non-self-sustaining vessel and it cannot serve undeveloped ports without shore capability. The vessel is of World War II vintage, built by the taxpayer and acquired by Sea-Land under the Vessel Exchange Act, the terms of which were very favorable and which will be touched upon later on.

Mr. **Krukoff**. Shown here is a picture of Western Pioneer's—one of Western Pioneer's vessels called the *Sculpin*. Like I pointed out earlier, it is not unlike the type of vessel that is used by Aleut Alaska. Small, inefficient, old, slow, high costing; therefore affecting cost of transportation to a region.

Mr. **Hubbard**. This is a picture of one of American President's lines, the Pacesetter class vessel at Dutch Harbor.

And this is a picture of American President Lines terminal facility at Dutch. It was built 2 years ago at a cost of $16 million to American President Lines. It is significant in that it shows our commitment to this trade. We have a 20-year agreement with the Dutch Harbor Development Corp. which is extendable to a total period of 50 years. It is also significant in that this facility with its modern gantry crane, permits the interface between a high-capacity, cost-effective, transpacific vessel with a smaller type vessel that is needed to serve the communities in the Aleutian chain. It is a sort of catch-22. You can't have a cost-effective service if you can't run a high-capacity vessel, but you can't put a high-capacity vessel into a smaller, undeveloped port. And it is this pier complex and crane that permits the ready interface and permits the transportation scheme that we have developed with the Aleut Alaska Shipping Co.

Mr. **Krukoff**. Shown here is a map of Alaska and our proposed service. APL, of course, has the great circle route to the Orient. And looking at the map, you will see a general idea of what the feeder service would do, what communities, basically the areas, it would serve.

Mr. **Hubbard**. Shown here is a blowup of our great circle course from Seattle to Japan, and you will observe that we go through Unimac Pass which is adjacent to Dutch Harbor. We do that some 78 times a year. We serve the export trade from Dutch Harbor to the Far East by positioning empty equipment, at present, into Dutch Harbor, where on the next voyage it is taken, loaded to Japan, but replaced with a vessel coming in. So we do have the capability to go through with empty equipment. We do go through with empty equipment today when we could be carrying, at very little additional cost, loaded equipment.

We have committed under our contract for the next 17 years, we are committed under our pier agreement for the next 20 years. We are in this service; we are in it to stay.

Mr. **Krukoff.** Under the proposal for feeder service in the region, the Aleut Corp. would shift the type of transportation system it currently has into common-carrier status that we currently do not enjoy because of the types of vessels we now use. We would have tugs and barges to serve the outlying areas. Bringing common-carrier service to the areas with common-carrier service simply does not exist, and where it does exist, it is very, very limited. And in addition to our tugs and barges, there is still some life in the break-bulk vessels that would carry some of the communities that are not yet able to be served through containerized operations.

The issue is not only a people issue. The biggest thing the people need is service that currently does not exist. Also, this service is needed for three areas of development that is being looked hard at right now. No. 1, the need for better transportation to support OCS development. Potentially we have out there in the Bering Sea nearly 15 billion barrels of crude oil and 62 trillion cubic feet of natural gas.

The other area of development is a development of the bottomfish industry in the Bering Sea. As it has well been known, there is a lot of potential for development of the underutilized species, and one of the key things that needs to be put in place is the fish and transportation system for a price-sensitive product. Without the efficient transportation system, we couldn't have these two areas of development.

The other area of development not mentioned often, but with high potential, is the agricultural development in the Aleutians. We have some witnesses here today to speak a little more on the potential development of the fisheries in the Bering Sea, and I would like to leave it to them to speak on that particular area of development.

Once again, here is a map of the OCS lease sales coming up in the next few short years.

This is a showing of the potential for bottom fish and how it would affect also the State of Washington, as far as their development goes.

There you see the differences in the potential and the actual catching in the area of underutilized species in the Bering Sea. There is quite a difference from the potential to actual takes.

Mr. **Hubbard.** This is a picture of the facility put in to Akutan by Trident Seafoods. They have a $6 million investment in it. They have some serious concerns, which you will hear about later, as to the quality and frequency of transportation.

All of these documents you have before you, and in the interest of time we will press on.

I think this is an item that Mr. Krukoff would like to talk about.

Mr. **Krukoff**. One of the areas of concern in transportation is the high cost of that transportation to a region. Our proposal would keep the tariffs low for food items going to western Alaska. Under our proposal, it would allow us the opportunity to cut the tariffs down in comparison to containerized shipping, as performed by Sea-Land Services. Our tariffs for food items, such as meat, groceries, would be approximately 30 percent below Sea-Land's existing tariff levels.

Here you see examples of the high cost today of food items. For example, a gallon of milk in Seattle at $1.98, in Dutch Harbor is $6.50. Butter in Seattle is $1.79 and in Dutch Harbor, $3.99. Coffee, $6.50 a pound in Seattle, is $10.79 in Dutch Harbor, and $13.53 in the Pribilof Islands. Eggs, a dozen eggs, 79 cents in Seattle.

Senator **Gorton**. You have only another minute to complete your testimony.

Mr. **Krukoff**. But anyway, those are ideas of the difference in cost.

Mr. **Hubbard**. Mr. Chairman, I would like to proceed immediately, in the interest of time, to what we consider to be one of the fundamental issues; that of the subsidized versus unsubsidized issue, which we consider to be a real red herring in this whole hearing. Since 1936, the subsidized carriers have competed with unsubsidized carriers and have been required to pay back that subsidy; and the payback of that subsidy makes it fair. Any argument of unfairness should more properly be addressed in a regulatory proceeding provided for under the act, called a section 805(a) hearing, where everyone has an opportunity in an open, fair session to present his argument.

Mr. **Krukoff**. Mr. Chairman, if I may make a final statement.

Senator **Gorton**. You may.

Mr. **Krukoff**. The conclusions we are trying to demonstrate to this committee is that there is one area where we agree with the opposition to S. 1682. It is an issue of fairness. Your job is to decide whether the issue of fairness to the shipping companies is the issue, or fairness to people in the region who need the service.

We are confident and are prepared to make an investment into the area that we think is going to bring better service to our region, and we would ask your serious consideration of passage of Senate bill 1682.

Senator **Gorton**. Thank you both very much. Because of the large number of witnesses, most of the questions which the chairman has will be submitted to you in writing.

I would like to ask each of you one question, however. For you Mr. Krukoff, is this arrangement with APL simply because of its facilities and the like? Will you or your organization be willing to make the same or similar agreements with anyone else who could provide competitive service?

Mr. **Krukoff**. We have asked—we have examined the issue for a long time. We have been approached by Sea-Land. We have been approached by Foss. We have examined the capabilities of Sea-Land. We've examined the capabilities of Foss. We have examined the capabilities of APL. A year ago we were skeptical of the idea that the Merchant Marine Act of 1936 could be changed. But the more we studied the issue, the fairness issue came up to a point where we feel like there is a very, very strong case, and that because of APL's ability or current involvement in Dutch Harbor, coming up to Dutch Harbor with empty vessels, that we should take full advantage. And it's only through an agreement with APL that we can afford to keep those tariffs low and have more efficient, more frequent and very much needed service that doesn't exist.

We have examined the capabilities of the other shippers.

Senator GORTON. Mr. Hubbard, you anticipated the argument from your opponents on unfairness and attempted to pull its fangs. Nonetheless, you know perfectly well that they feel that simply giving up a subsidy between Seattle and Dutch Harbor on an otherwise subsidized trip with subsidized vessels still does not put you in an even situation.

Would APL still be considering this service, if it were required to give up its entire subsidy on the Seattle-Dutch Harbor-Japan run?

Mr. HUBBARD. Mr. Chairman, I believe you have to look at subsidy in its totality. Our opposition enjoys subsidy under one form or another. Title XI guarantees, Vessel Exchange Act, Capital Construction Fund, and not the least, the appropriation of almost $300 million for the acquisition from Sea-Land of the commercially obsolete foreign-built vessels which had already been replaced in the Pacific trade with vessels built in foreign yards. So subsidy takes many forms other than construction and operating differential subsidy.

We would be happy to compete on an equal basis, and I think your question deserves study. It is a very complex one. We'll be very happy to respond in writing, sir.

Senator GORTON. We'll be happy to receive that.

Senator STEVENS. I'm interested in the same area, Mr. Chairman, and it's basically the area of fairness. I do believe that the comparative prices are there, and there is no question about the discrimination against this part of the United States, as far as freight rates are concerned. And they're never going to be competitive unless they can find some way to have fair treatment as far as freight rates are involved.

Now let me ask each of you this. It's my understanding that at the base of this proposal is the idea that you would utilize the empty capacity, the empty vessels, and they are now coming empty to Dutch Harbor from Seattle.

Mr. HUBBARD. That is correct.

Senator STEVENS. And that freight for these areas would be brought to Dutch Harbor, is that right, from Seattle?

Mr. HUBBARD. In lieu of empty refrigerated equipment; yes, sir.

Senator STEVENS. And then your vessels would be upgraded, in order to expand service not only to the Aleutian chain but to go to the Pribilofs and to go to the west coast of Alaska?

Mr. KRUKOFF. The type of service we would have would involve tugs and barges primarily. Yes, it would expand to the northern parts of western Alaska. We also—I would like to add that we are also taking a very serious look— we have submitted to the Bureau of Indian Affairs, a bid, conceptual bid to give the BIA an idea, if they really have been interested in the idea of such a service in the region, because I understand they did not have satisfactory bids submitted to the Bureau of Indian Affairs to take over the services that are now currently operated by Northstar 3.

Senator STEVENS. That was going to be my next question, that there is a cost to the Government to service the area that you are considering extending to the west coast in the operation of Northstar. Did you contemplate completely replacing the Northstar service with this service of yours?

Mr. KRUKOFF. We are very interested in that concept. We don't know how much we would be able to completely, whether it is possible to completely take over the type of service now provided by the Bureau of Indian Affairs, because we are still examining the entire structure of service provided by the Bureau of Indian Affairs, but we are interested. And, like I mentioned, we submitted a conceptual bid to the Bureau of Indian Affairs showing, by the way, that the tariffs that we would suggest would be a lot lower than are now being paid by the people served by the Bureau of Indian Affairs.

Senator STEVENS. What about the oil industry trade associated with the west coast, Outer Continental Shelf, the Navarin Basin, and all? Have you interfaced with that as far as your proposed service?

Mr. KRUKOFF. That is one area really that I have only looked at on the surface. Whatever development takes place as far as offshore development in oil, that is something I would probably want to respond to in writing.

Senator STEVENS. Well, I would like to have that, because it is clear that the sales are now scheduled and that the activity is going to take place, and I don't see any existing freight connections into that area. It is a question I intend to ask the other carriers too, and if you want to provide the answer too, what would you intend to do as far as your proposed service to the areas that are scheduled for development as far as the OCS is concerned, and I will appreciate your answer.

A last question, Mr. Chairman.

I do think that there is a problem about the one question that you asked, and that is, would the APL be willing to forego or to repay the subsidy for the whole Seattle/Japan round trip. As I understand it, I think that was your question.

Have you examined into the treatment that other carriers have received when they received waivers and had a repayment schedule? What is the experience in the past as far as repayment is concerned.

Mr. HUBBARD. There is a specific formula in the act which we are perfectly prepared to comply with, Senator. It is a fair repayment of subsidy. There is provision for an open hearing to examine the fairness. We think everybody would have this opportunity to present his argument and a decision made.

Senator STEVENS. Thank you very much, Mr. Chairman.

Senator GORTON. Senator Inouye.

Senator INOUYE. Mr. Krukoff, I was quite impressed by your testimony relating to a gallon of milk. I presume these are retail prices up there?

Mr. KRUKOFF. Yes, sir.

Senator **Inouye**. The difference in cost between Seattle and Dutch Harbor being $4.52. Does that difference represent the cost of freight for a gallon of milk from Seattle to Dutch Harbor?

Mr. **Krukoff**. I'm sure freight does have an important effect.

Senator **Inouye**. Hou much?

Mr. **Krukoff**. I couldn't answer that, because there's also—in all fairness, there's also the question of competition in local communities where you might have a single store.

Senator **Inouye**. Is that the major cause of the difference in price?

Mr. **Krukoff**. I think the major cause of the difference in price—and I would also like to respond to this in writing after further studying of how we got these figures. I believe the major cost difference is in price because of the high cost of transportation.

Senator **Inouye**. Well, the impression that one would get from that bit of evidence would suggest that the shipping lines are charging exorbitant rates. As a result, the people are suffering from these higher rates. I would like to suggest that the cost of freight for this gallon of milk from Seattle to Dutch Harbor is less than 15 cents. I may be wrong.

Senator **Stevens**. I would like to see that proof. We would be in Federal court tomorrow if it were true. Those rates have to be based on fairness, as you know, under the tariffs.

Senator **Inouye**. We're talking about the cost to the consumer, the retail price.

Senator **Stevens**. I understand that.

Senator **Inouye**. I think if there's one grocery store there, I suppose it can charge what the traffic will bear.

Mr. **Krukoff**. One point that was made, Senator Inouye—one point that was made in one of the letters of testimony to this committee by a storeowner in Dutch Harbor. His complaint that while Anchorage—during the same time that Anchorage's tariff's dropped 8 percent the tariff to Dutch Harbor increased by 25 percent.

Senator **Inouye**. Mr. Hubbard, I would assume that the primary reason for the Seattle/Japan voyage is to carry commerce to and from Japan.

Mr. **Hubbard**. That is correct, sir.

Senator **Inouye**. Then your stopover in Dutch Harbor would be a secondary stop?

Mr. **Hubbard**. No, sir, because we transport export cargo from Dutch Harbor to Japan as a part of our normal trade.

Senator **Inouye**. If that is the case, would you say then that the carrying of domestic cargo would be on a space available basis?

Mr. **Hubbard**. The space available today is far greater than the commercial demand for dry cargo to Dutch, and we are presently carrying all empty equipment when there is need for the product to be transported on a regular scheduled liner service, 3½-day service from Seattle to Dutch Harbor. I've been told that even air freight doesn't make it in 3½ days from Seattle to Dutch Harbor.

Senator **Inouye**. I would presume that that is the situation today. But if the situation should change tomorrow, which cargo gets priority? Foreign cargo or your domestic cargo?

Mr. HUBBARD. As a carrier receiving and operating with a construction differential subsidy under the act, we read the policy of the act as that of providing a strong, viable American-flag merchant marine capable of serving in national defense as well as improving the domestic and the foreign trade of the United States. We believe that we share the opinion of Senator Stevens that we are looking at an area of unprecedented growth. We think the growth in that area will be stimulated by regular common carrier commercial service. We think we would be the catalyst. We think that others would follow, and there will be room for everyone.

We at APL are presently building three ships in American yards at a cost of $120 million apiece that will be put into the transpacific service, greatly enhancing our capability. We don't think that there is going to be that problem.

I understand what you are asking, but we think it is a nonissue.

Senator INOUYE. The one matter that concerns me is that in exemption No. 4, ships in the foreign commerce may stop at certain islands such as Hawaii, Guam, and Puerto Rico, and engage in the domestic trades. Now isn't it true that in the case of Puerto Rico there is no domestic trade being carried by subsidized ships?

Mr. HUBBARD. Subsidized under what method of subsidy, Senator?

Senator INOUYE. CDS and ODS.

Mr. HUBBARD. To my knowledge, there are none.

Senator INOUYE. In the case of Hawaii, the subsidized ships involved in domestic cargo is almost nonexistent.

Mr. HUBBARD. One of the principal carriers to Hawaii, United States Lines, does receive subsidies. Not on that trade route, but they do receive subsidy.

Senator INOUYE. They do, but the involvement in the domestic trade is almost nonexistent; isn't that correct? In other words, they don't compete with the domestic lines. They drop import cargo off at Hawaii.

Mr. HUBBARD. They have competed strongly in Hawaii in the past.

Senator INOUYE. With the domestic carriers?

Mr. HUBBARD. Yes. They now have a cooperative arrangement, since another American-flag carrier went into bankruptcy.

Senator INOUYE. Will your operation be competitive with the others in Alaska?

Mr. HUBBARD. We do not intend to compete in the Anchorage or BRAIL belt area. Our service is an extension or an add-on to our foreign service, which is specifically described again under the act, that it has to be a part of a foreign voyage. We do not contemplate running pure domestic voyages.

Senator INOUYE. It's your contention that the seven shipping lines will not be affected, that this will not stifle competition?

Mr. HUBBARD. Well, of the seven domestic lines, as commented by Mr. Krukoff, only four of them serve the area that we are talking about. Of the four, one is the Aleut Alaska Shipping Co., and of the other remaining two, one is a barge operator under a Government contract to Adak, and the other is not a common carrier. So we don't feel there is any threat in that area.

Senator GORTON. Each of us will submit questions in writing, and we appreciate very much the presentations of each of the two of you.

[The statement follows:]

STATEMENT OF THE ALEUT CORP. AND AMERICAN PRESIDENT LINES

Mr. Chairman and members of the committee, the Aleut Corporation and American President Lines welcome the opportunity to appear here today. We are here to present a proposal for an improved transportation system in Western Alaska which can only be realized if Congress amends the Merchant Marine Act of 1936. The Aleut Corporation is one of the thirteen regional corporations created under the terms of the Alaska Native Claims Settlement Act of 1971. The Aleut Corporation has approximately 3,300 Native shareholders, most of whom live in Dutch Harbor and 12 other remote villages and communities in Western Alaska. In addition to being a "for profit" business corporation, the Aleut Corporation has a Congressionally mandated responsibility to improve the social welfare, the quality of life and the economic opportunities available to its shareholders and the Village Corporations in the region. Attached to our prepared statement is detailed information concerning the Aleut Corporation and its wholly-owned subsidiary, the Aleut Alaska Shipping Company, and American President Lines (APL) and the history of APL's service in Alaska. (Attachment A)

In this prepared statement, we will discuss the Aleut Alaska/APL service concept; analyze the Merchant Marine Act of 1936 and explain why it should be amended; explain why the real issue before this Committee is transportation efficiency and why the "subsidized versus unsubsidized carrier" argument is disingenuous; and discuss the critical need for the vastly improved transportation service we propose.

THE ALEUT ALASKA/APL SERVICE CONCEPT

1. Background

In 1979, APL ships began stopping at Dutch Harbor, Alaska, on their way from Seattle, Washington, to the Orient. APL carries salmon, crab and other fish products from Dutch Harbor to the Orient. APL, in a joint venture with the Aleut Corporation, has invested $16 million in a modern terminal facility at Dutch Harbor to provide for efficient handling of containers moving from Alaska to Japan.

In order to perform transportation services between Dutch Harbor and the Orient, APL positions empty refrigerated containers in Dutch Harbor by carrying them from Seattle to Dutch Harbor. These empty containers represent unused capacity which should be utilized to carry domestic cargo from Seattle to Dutch Harbor and Western Alaska.

There is also substantial underutilized refrigerated capacity on APL ships returning from the Orient via the Great Circle route which takes the ships within 30 miles of Dutch Harbor. It would be a more efficient use of APL's refrigerated capacity to carry fisheries products from Dutch Harbor to Seattle than to carry dry goods in refrigerated vans from Japan to Seattle. If APL ships were permitted to call at Dutch Harbor on their return from the Orient, the presented underutilized refrigerated capacity on APL's ships returning to the United States would be efficiently utilized. APL would provide weekly refrigerated service from Dutch Harbor to Seattle.

Aleut Alaska Shipping Company operates two break-bulk vessels which make 18 round-trip line-haul voyages per year between Seattle and points in the Aleutian Chain and Western Alaska. The Aleut Alaska vessels are relatively small, slow, and fuel-inefficient for line haul use. As a wholly-owned subsidiary of the Aleut Corporation, Aleut Alaska Shipping Company recognizes its responsibility regularly to serve the Native Villages and small communities in Alaska. Unlike other carriers to Western Alaska, the Aleut Corporation's responsibilities to its region have dictated that it attempt to provide regular service to the area. As a result of the inefficiencies associated with its line-haul voyages and its efforts to provide regular service, Aleut Alaska is suffering substantial operating losses. Aleut Alaska will have to discontinue service if a more efficient transportation system is not legislatively authorized.

It was against this factual background that Aleut Alaska and American President Lines developed a combined transportation system in which APL will perform the line haul service for Aleut Alaska and Aleut Alaska will expand its service to small communities and become strictly a feeder operation. This arrangement would create a viable system for both carriers and allow Western Alaska to have a regular and dependable transportation system. The service is described in greater detail below.

2. Description of service

A. APL Line-haul and Aleut Alaska Feeder Service.—The transportation concept is simple: APL will utilize its line haul capacity northbound and southbound together with its existing efficient terminal facilities to perform regular and efficient line-haul service for Aleut Alaska in order to move goods back and forth between Seattle and Dutch Harbor in 3½ days. (See Attachment B.) Aleut Alaska will discontinue its line haul operations between Seattle and Dutch Harbor and provide a feeder service from Dutch Harbor to outlying communities and from those communities back to Dutch Harbor. Pursuant to Section 15 of the Shipping Act, 1916, APL and Aleut Alaska have entered into an agreement to provide this new transportation service. With respect to northbound voyages from Seattle to Western Alaska, Seattle cargo will be containerized in APL containers and carried aboard APL vessels to Dutch Harbor. At Dutch Harbor, the cargo will be transshipped to an Aleut Alaska vessel for on carriage to its destination. Shippers will receive through bills of lading from Seattle to ultimate destination and will be charged pursuant to tariffs on file and published by Aleut Alaska.

With respect to the southbound trade from Western Alaska to Seattle, Aleut Alaska will provide connecting local service from the remote communities (identified in Attachment C) to Dutch Harbor utilizing its existing vessels. Aleut Alaska also contemplates the use of tugs and barges to call at the various ports at which south-bound cargo for Seattle will be accepted. Shippers will be quoted a single-through rate and issued a through bill of lading. Aleut Alaska will collect the freight and other charges. APL will collect such charges on cargo originating at Dutch Harbor or Captain's Bay. Cargo that originates on Aleut Alaska vessels at out ports will be carried to Dutch Harbor where it will be transferred to an APL vessel and moved to Seattle.

B. An efficient service.—The line-haul between Seattle and Dutch Harbor will be performed in 3½ days by large, fast, modern container vessels which can be loaded and unloaded using modern, automated terminal facilities in Seattle and Dutch Harbor. APL is capable of making a minimum of 78 calls per year at Dutch Harbor.

The proposed domestic service would be incidental to APL's foreign service. APL is already engaged in a profitable trade between Dutch Harbor and the Orient. It is the efficiency inherent in the incremental nature of this service which has the potential for lowering costs while at the same time increasing quality and frequency of service. It is the efficiency of the line-haul and feeder service combination which presents competition for existing carriers.

3. The Aleut Alaska/APL proposed service compared with existing service.

A. A more effieient service.—Service would be more efficient because there would be a direct transit by fast, efficient, and large container vessels between Seattle and Dutch Harbor. Efficiency results not only from the type and deployment of the vessels but also from the efficiency of the terminal at Dutch Harbor. APL has expended over $16 million dollars to construct a modern container terminal which includes the only gantry crane in Western Alaska.

B. Existing services are not as efficient.—Sea Land provides a service to Dutch Harbor through the use of line-haul vessels from Seattle to Anchorage to Kodiak where cargo destined for the Aleutian Chain is discharged and relayed to the feeder vessel M/V Aleutian Developer. The Aleutian Developer does not operate on a published schedule. Cargo needs and seasonal fluctuations often dictate its schedule.

It should be noted that following the announcement of the Aleut Alaska/APL agreement, Sea Land proposed to provide a line-haul service for the Aleut Alaska Shipping Company by moving goods from Seattle to Anchorage to Kodiak and then via their feeder service from Kodiak to Dutch Harbor. At Dutch Harbor the goods would be transferred to Aleut Alaska's feeder service to the ultimate destination. Aleut Alaska has rejected that proposal. It does not offer the same efficiency that the APL line-haul would offer. The terminal facility used by Sea Land in Dutch Harbor is not as efficient. Sea Land's line haul stopping at Anchorage and Kodiak, with transfer to a Sea Land feeder vessel for transiting to Dutch Harbor requires double handling of cargo between two services. It is obviously less efficient than a line-haul directly from Seattle to Dutch Harbor on a modern container vessel involving no intermediate cargo ships or handling. This is particularly true when modern container handling equipment is used to load and unload cargo.

Foss Alaska Line operates a weekly containerized tug and barge service to southeastern Alaska ports. This line-haul service then feeds northbound military cargo plus northbound Dutch Harbor domestic freight to Sitka where it is relayed to another tug and barge which serves Adak on a 21-day turn cycle. The Adak tug and barge stops at Dutch Harbor enroute to the military base at Adak for which Foss has the transportation contract. Foss then calls Dutch Harbor enroute back to Sitka. Foss Alaska Line is currently using the efficient APL terminal at Dutch Harbor under contract with APL. But tug and barge operations, with a line-haul from Seattle to Sitka and a feeder service to Dutch Harbor with transit time of 21 days, cannot compare with the efficiency of the service proposed. The proposed Aleut Alaska/APL Service would deliver goods between Seattle and Dutch Harbor in 3½ days.

Foss Alaska Line also offers seasonal freight service between Seattle and Western Alaska. Its primary ports of call include Dillingham, Bethel, and Nome with service to other Kuskokwim River points, Bristol Bay, and Kodiak Island. This service by tug and barge would not be as efficient as the proposed service combining the APL line-haul service with Aleut Alaska's feeder service to those points.

Western Pioneer Lines utilizes five World War II vintage small break-bulk reefer freighters originally built by the U.S. Government. These vessels provide contract service to fisheries-related customers in Aleutian Chain ports. These ships each make approximately eleven sailings from Seattle annually. They are fully utilized and have break-bulk cargo on deck. The majority of their cargo, possibly as much as 80 percent, goes to only four major customers: (1) Pan Alaska Fisheries at Dutch Harbor and Beaver Inlet; (2) Alaska Shell, Inc., at Akutan; (3) Alaska Packers at Akutan, Chignik, and Naknek; and (4) Peter Pan Seafoods at Dillingham, False Pass, King Cove, and Port Moller. Western Pioneer offers no regularly-scheduled common carrier transportation services to the Aleutian Chain area.

During the salmon season, Crowley Maritime and Sea Land together provide service to Bristol Bay, Kuskokwim Bay and Norton Sound Canneries. This operation is known as "salmon carriers". North Land services operated a tug and barge this year which provided twenty foot dry containers to the salmon canneries. These are specialized services for meeting some of the fisheries related transportation needs.

It should be noted that there is one additional carrier which provides service between Seattle and Anchorage. Totem Ocean Trailer Express (TOTE) operates two Ro-Ro ships with a capacity slightly over 400 40-foot units. TOTE provides twice-weekly sailings from Seattle to Anchorage with a transit time of approximately 3½ days. No direct service is provided to Kodiak, Cordova, or Aleutian Chain areas. Again, even though the TOTE vessels are efficient, any operations to the Aleutian Chain would have to originate from Anchorage via a feeder service and would not be as efficient as a direct line-haul from Seattle to Dutch Harbor coupled with a local feeder service. It should also be noted that existing services to Anchorage and Kodiak are currently capacity constrained.

Finally, the Committee should be aware of the fact that the Bureau of Indian Affairs operates the Northstar III from Seattle into the far reaches of western and northern Alaska for the purpose of supplying the essential needs of some of the remote Native villages. This service has been essential because commercial carriers do not find it economical to call at these villages. Despite the intention of BIA to break even, it has not done so recently and has required increased government support. This year the Bureau has called for public bidding to evaluate the feasibility of the operation being conducted by the private sector. Aleut Alaska has submitted a concept proposal to the Bureau of Indian Affairs and has notified BIA of its interest in bidding on the operation using its own equipment, contingent upon the Stevens bill (S. 1682) becoming law. Service to the remote villages would be significantly improved, both through a lowering of transportation costs and increased calling frequency.

None of the existing carriers offers the regular, efficient common carrier transportation service to Western Alaska which Aleut Alaska and APL propose. Given the huge potential for development of Western Alaska's bottom fish, agriculture, and oil and gas, and other natural resources and the continuing need for break-bulk and out-sized and heavy lift cargoes, there will continue to be a substantial need for tug and barge operations from Seattle to Western Alaska. Fisheries development will create a need for continued service by the fisheries-related vessels. Leasing, exploration and development of Western Alaska's Outer Continental Shelf will require very substantial new ocean transport services.

In short Mr. Chairman, there is no need to continue to penalize Western Alaska's economy, its communities and its people by denying market entry to a logical system of regular, efficient and economical transportation service. This area has tremendous potential for growth in minerals, in oil and gas, in agriculture, and in fishery resources. However, no area can develop when it is precluded from access to an efficient and regular transportation system. This area will need more, not less in the way of ocean transport services. We believe competition in transportation will accelerate the development of these resources and create a larger market for all carriers.

C. The Aleut Alaska/APL proposed service would provide regularly-scheduled and more frequent service to western Alaska communities.—The attached charts contain information pertaining to: (1) the type of existing service for various communities in Western Alaska, and the frequency of that existing service; and (2) the proposed Aleut Alaska service to those communities and the proposed frequency of service. The charts illustrate the greater frequency of common carrier service that is possible by combining an efficient line-haul service with a feeder service that is dedicated to improving the quality of life in Western Alaska and promoting the economic development of the region. (See Attachment D.)

D. Lower cost service.—The cost of service to Western Alaska communities will be established by tariffs set by the Aleut Alaska Shipping Company. Under the agreement between the Aleut Alaska Shipping Company and APL, APL is to provide the line-haul service from Seattle to Dutch Harbor and from Dutch Harbor to Seattle for certain prices. (These have been filed with the FMC and are, of course, proprietary.) Based upon Aleut Alaska Shipping Company's initial analysis, it believes it will be able to perform a feeder service which is quantitatively and qualitatively better and still costs less than current service. These rate reductions are possible because of the efficiency of the service proposed. It should be stressed, that the rate reductions have noting to do with whether or not American President Lines receives subsidies for the foreign segment of its voyage to the Orient and repays subsidy for its domestic segment. The efficiency of this service and its incremental nature are the controlling factors in the establishment of low rates.

THE MERCHANT MARINE ACT OF 1936 MUST BE AMENDED IN ORDER TO PERMIT ALEUT ALASKA AND APL TO UNDERTAKE THE PROPOSED TRANSPORTATION SERVICE FOR WESTERN ALASKA

1. Current law

Under current law a vessel built in the United States with the aid of construction differential subsidy and operated with operation differential subsidy may not engage in the coastwise or intercoastal trade as a general rule. The rationale behind this rule is to prevent a subsidized carrier from competing with unsubsidized carriers in the domestic trade. There are, however, a number of statutory exceptions to this rule which permit subsidized carriers to participate in intercoastal or domestic trade in connection with a foreign voyage on condition that the subsidized carrier repay subsidy for the domestic portion of the voyage.

Under current law, none of the recognized statutory exceptions specifically apply to Alaska. However, the rationale for applying the exceptions does apply.

2. An analysis of the Merchant Marine Act of 1936 indicates that Dutch Harbor should be excepted from the general rule prohibiting subsidized carriers from participating in the coastwide or intercoastal trade on condition that subsidy for the domestic segment of a voyage is repaid.

Under the Merchant Marine Act of 1936 subsidies were extended to U.S. vessels operating in foreign commerce. The purpose of the subsidy was to encourage vessels to be built in U.S. yards and to employ U.S. crews. Without construction subsidies, U.S.-built vessels could not compete in the foreign commerce with cheaper vessels built in foreign yards. By the same token, U.S.-flag ships utilizing U.S. crews could not compete in the foreign commerce against vessels using smaller and less expensive foreign crews. In order to preserve a maritime capability for commercial, national security, and economic reasons, a subsidy program for vessels in the foreign trade was instituted. The "ultimate subsidy" was provided for ships in the coastwise or intercoastal trade. Only U.S.-built ships operating with U.S. crews could participate in the coastwise or intercoastal trade. In other words, the "ultimate subsidy" of excluding foreign competition was provided for carriers in the coastwise or intercoastal trade. During the debate on the Merchant Marine Act of 1936, it became obvious that the divergent policies adopted for the domestic trade and the foreign trade presented problems for ships which might logically operate in both trades—that is U.S. built and manned ships passing by domestic points on a voyage in the foreign trade. There was some sentiment to maintain a complete separation between ships in the domestic service and ships in the foreign service. On the other hand, amendment after amendment was offered to permit subsidized U.S. vessels on a foreign voyage to operate in the domestic trade in conjunction with a foreign voyage upon repayment of subsidy in order not to impose inefficiencies. A compromise was reached whereby subsidized U.S. carriers were permitted to operate in a mixed foreign and domestic service in four different circumstances upon condition that subsidy for the domestic segment of a foreign voyage would be repaid.

An analysis suggests that joint domestic and foreign service was provided in those trades where substantial inefficiences would be imposed if such joint services were not permitted. Thus, a subsidized carrier was permitted to carry goods from the U.S. West Coast to the Atlantic Coast on a voyage to Europe; a carrier from the Atlantic Coast could stop at an intercoastal (Gulf or West Coast) port on the way to the Orient; a carrier could stop at an island territory or island possession on a voyage from the West Coast to the Orient or on any other voyage in the foreign commerce; or a carrier on a round-the-world voyage could call at intercoastal ports or an island possession or island territory.

An analysis of the Merchant Marine Act of 1936 and its legislative history reveal two important points. First, since 1936 it has been considered fair to domestic carriers if subsidized carriers make domestic voyages as a leg of a voyage performed in the foreign commerce on the condition they repay subsidy on the domestic leg. Second, Dutch Harbor, Alaska is situated on a trade route between the United States and the Orient in the same manner that Hawaii and Guam are so situated.

The rationale for the "island-territory" exception becomes plain in this context. It was to be applied to non-contiguous territories of the United States, in the coastwise trade, lying at significant distances from the United States, situated on established international trade routes, and having enough economic activity to sustain significant trade. Hawaii and Puerto Rico met each of these criteria in 1936, and the only one which Alaska then failed to meet—enough economic activity to sustain trade—has long since been met. These conditions satisfied the goals of efficiency and competition which the Congress placed at heart of the Act, as analysis of the legislative history indicates.

The rationale for the Merchant Marine Act of 1936, and the rationale for the Act's exceptions permitting partial payment of subsidies to carriers in joint domestic and foreign trade, are presented in the legislative history in general terms, applicable to any situation or locality which fits the criteria established by Congress. That rationale was the promotion of competition and efficiency. The permitted exceptions in sections 506 and 605(a) fitted within that rationale because they involved travel along established foreign trade routes for which it would have been inefficient not to permit some incidental domestic trade at convenient points. The "island territory" exception illustrates this point: the two examples most frequently mentioned in the debates—Hawaii and Puerto Rico—were economically significant non-contiguous U.S. possessions lying at some distance from the United States along established international trade routes. Not to permit American ships in foreign trade to stop at their ports would have been economically detrimental both to the two localities and to the merchant marine.

Though Alaska is unnamed in either the Act or its legislative history, in its present situation it fits squarely within the rationale of the Act and of the "island-territory" exception. It is a non-contiguous State lying at a significant distance from the continental United States, and it now—unlike in 1936 when the Act was passed—has international trade routes nearby.

Carriage within "island territory" exception will promote both efficiency in the carrier trade and development of the local economy. There is no danger of abuse because any carrier, to receive the partial subsidy, will have to be a competitor with foreign shipping in international trade.

In short, time and circumstances have propelled Alaska to a condition today that fits exactly the condition which proponents of the 1936 Act meant to provide for in the "Island-territory" exception. Though they did not foresee Alaska's growth and development and therefore did not specifically provide for it, the rationale of the law which they enacted leaves no doubt of its proper application to Alaska.

It is an unintended anomoly of history that service to Dutch Harbor has not been allowed since 1936. Had there been the need for service to Dutch Harbor in 1936 (or some would argue 1958) that so clearly exists today, there would be no need for the proposed amendment. The 1936 Act would have authorized such service in to avoid transportation inefficiences and in order to provide equality of treatment between two similarly situated points (i.e. Hawaii and Dutch Harbor).

Prior to 1959, the Merchant Marine Act of 1936, Section 506 and 605(a) permitted service by a subsidized carrier to an "Island possession or island territory" on a voyage in the foreign trade. The Hawaiian Statehood Act amended the Merchant Marine Act of 1936 to cover the State of Hawaii within the exception since it would no longer be an island possession or territory of the United States when it became a state. The Alaskan Statehood Act enacted a year earlier, however, contained no such conforming amendment. Apparently, this was because there was no need for service at Dutch Harbor at the time of the passage of the Alaskan Statehood Act.

As a result, the transportation benefits accorded Hawaii at the time of Statehood were not accorded to Alaska.

D. Conclusion.—Because fishery and other development in Western Alaska followed enactment of the 1936 Act, current law precludes APL from performing an efficient and incremental line-haul service to and from Dutch Harbor in connection with voyages to and from the Orient. There is an immediate need for Congress to amend the Merchant Marine Act of 1936 to permit subsidized carriers to serve Dutch Harbor upon condition that subsidy for the domestic of the voyage is repaid. Such an amendment would put the people of Western Alaska on a par with citizens of Hawaii and other island possessions and island territories. There is no valid reason to deny citizens of Western Alaska equal treatment under the law.

THE "SUBSIDIZED" VERSUS "UNSUBSIDIZED" ISSUE

Carriers which provide existing service to Western Alaska argue that the Merchant Marine Act of 1936 should not be amended to permit a carrier such as APL to perform an efficient line-haul service for Aleut Alaska Shipping Company. The simplistic reason given is that it is unfair for them as "unsubsidized" carriers to compete against a "subsidized" carrier.

The issue is a "red herring" because the repayment of subsidy for the domestic segment of a voyage eliminates any competitive advantage between a subsidized carrier and an unsubsidized carrier resulting from the subsidy. This basic principle has been recognized since 1936 when mixed foreign and domestic service was authorized and no one, not even the unsubsidized carriers opposing the inclusion of Dutch Harbor, Alaska, argue that as a general principle the subsidy repayment provision is unfair. Their sole complaint seems to be in having any subsidized carrier provide the service at all. These carriers want to preserve their ultimate subsidy—the exclusion of competition.

Once the nature of the subsidy argument is recognized, existing carriers will be forced to fall back to the contention that they have relied on existing law and policy to their detriment by making substantial monetary investments in the belief that a more efficient transportation system would not be created. This is a novel concept of detrimental reliance or "changing the rules in the middle of the game." No investor can or should be immune from changes in law which improve the efficiency of our economic system. In the past, Congress has consistently rejected such arguments, and most recently, has rejected such arguments when reforming the system of aviation, truck, and rail regulation in this country.

There are two reasons why this "changing the rules" argument should be rejected. In the first place, there is no constitutional or legal basis for suggesting that a private investment prevents Congress from amending the law to create a better, more efficient system of transportation for a remote region of the United States. Secondly, the existing carriers would be hard-pressed to document that their reliance has been in any way detrimental. If one searches for evidence of substantial investment to serve Western Alaska by existing carriers, it is not easy to find. For example, Foss Alaska Line did not purchase a tug and barge in order to undertake the Adak service; it utilized existing equipment. Sea Land has depreciated most of the cost of the Aleutian Developer. Western Pioneer acquired its vessels from the Federal Government at a very favorable price. Sea Land also acquired its line-haul vessels in the same manner. On the contrary, press reports disclose inadequate service and a major shortage of refrigerated container availability in Western Alaska. The only substantial new investment for transportation in Western Alaska appears to be the $16 million dollar terminal facility built by APL at Dutch Harbor.

A final irony of the "subsidized" versus "unsubsidized" argument is the fact that the "unsubsidized" carriers are receiving substantial governmental financial benefits in the form of Title XI loan guarantees, and vessel exchange arrangements. For example, several of the so-called "unsubsidized" carriers exchanged vessels (ferry boats in one case) to acquire from the Department of the Navy the vessels they now operate in the Alaska trade. The used ferry boats were acquired for very nominal amounts. (See Attachment E.) The exchange program served as a major quasi-construction subsidy program for domestic carriers and was recognized as such by Congress. However, there is no provision in law which requres the "repayment" of this type of subsidy when these carriers compete with carriers that did not benefit from the exchange program on a domestic segment of a foreign voyage. (See Attachment F.) Only the carrier on a foreign voyage is required to repay its construction subsidy. The irony is that the "unsubsidized" carriers have been subsidized in their vessel acquisition and the "subsidized" carriers have not been subsidized because they are required to pay back their subsidy. To the extent any party is prejudiced, it is the "subsidized" carrier because it must repay its subsidy and it must compete with domestic carriers receiving forms of subsidy that do not have to be repaid.

Parenthetically, it should be noted that some of these same carriers who oppose the Aleut Alaska/APL proposal have taken a similar tack in contesting the proposed transfer of the Alaskan railroad to the State of Alaska. As in the instant case, these carriers have, as in the Alaska railroad case, asked Congress to protect them from any competition; overstated their investment in the trade; and mischaracterized the impact of the proposed Congressional action.

SECTION 805(a) OF THE MERCHANT MARINE ACT OF 1936 PROTECTS EXISTING CARRIERS FROM UNFAIR COMPETITION

If Section 506 and Section 605(a) of the Merchant Marine Act of 1936 were amended to permit a subsidized carrier to serve Dutch Harbor, Aleut Alaska and APL would be subject to a hearing under Section 805(a) of the 1936 Act. In that hearing, the issue of "unfair competition" would be raised and would be considered by the Maritime Administration. Aleut Alaska and APL take the position that if the opponents of the proposed amendment insist upon trying the issue of unfair competition in the legislative forum, then Congress should in making the changes to Sections 506 and 605(a), resolve the Section 805(a) issues insofar as they apply to the service to Dutch Harbor without putting us through further proceedings. The opponents of the proposed amendment seem to ignore both the subsidy repayment provisions of existing law (Sections 506 and 605) and also the requirement for a hearing under Section 805(a). If the opponents persist in these positions, we would respectfully suggest that Congress ignore their claims and rely upon Section 805(a) or consider their arguments on the merits in the legislative forum and act accordingly by waiving section 805(a).

Early resolution of this issue is important. The Aleut Alaska Shipping Company cannot continue to operate a line haul service at a substantial loss. Aleut Alaska very much needs to enter into efficient and effective agreements with APL. Failure to achieve a timely Congressional and regulatory response could lead to the demise of a very important carrier in Western Alaska; one that is locally owned by Alaska Natives and that is dedicated to improving the quality of life of the people in small communities of Western Alaska and to promoting the economic development of the region.

SUBSTANTIAL BENEFITS WOULD RESULT FROM THE PROPOSED ALEUT ALASKA/APL SERVICE TO DUTCH HARBOR

Other witnesses will undoubtedly address the substantial benefits which could result from the proposed Aleut Alaska/APL service. Some of those benefits are discussed in summary fashion below.

1. Regular and affordable service to small communities

Small communities in Western Alaska are dependent upon water and air transportation for the provision of basic goods and services. As discussed above, the Aleut Alaska Shipping Company proposes to provide regular and affordable service to those communities.

2. Benefits for fish processors and fishermen engaged in existing fisheries

There are primarily three different fisheries in Western Alaska at the present time: the King Crab fishery; the Tanner Crab fishery; and the Salmon fishery. These are seasonal fisheries with substantial peak transportation requirements. These requirements are not now being met. There are numerous press accounts of processors having to slow down their production or close their plants because of the lack of containers or the unavailability of transportation or both. The proposed Aleut Alaska/APL service will enable processors to meet their peak transportation needs, thereby enabling fishermen and fish processors in Alaska and the State of Washington to operate in a more profitable manner.

Regularly-scheduled service to small communities should also substantially reduce the fishing industry's warehousing and inventory costs. With the present cost of money, this means substantial positive economic benefits for fishermen and fish processors. We are confident that these points will be made by those who are most directly affected, namely the fishermen and fish processors themselves.

3. The development of a new fishery

The waters of Western Alaska are teeming with bottom fisheries resources that are not being exploited by American fishermen and fish processors. A primary impediment to such exploitation is the lack of efficient transportation. Fishermen are reluctant to engage in this fishery because of the inability of the fish processing industry to compete with foreign fish processors in the bottom fishery market.

The lack of an efficient U.S. transportation system is one reason why foreign fishermen are able to exploit this fishery to the exclusion of U.S. fishermen and/or processors. They catch fish within our 200-mile zone, send it to the Orient for processing, transship it to the United States and sell it at a cost lower than the cost which our U.S. fishermen and processors can deliver it to our own domestic markets. By utilizing the efficient Aleut Alaska/APL proposed service and by pricing the cost of the movement on an incremental basis, it may be possible to develop a competitive domestic bottom fishery industry which will have substantial positive economic benefit for the State of Alaska, the Northwest region of the United States and the nation as a whole.

4. *Other potential benefits*

It is possible that federal expenditures could be reduced through the institution of the Aleut Alaska/APL service. Regular service by Aleut Alaska Shipping Company could reduce or eliminate the need for the North Star III service by the Bureau of Indian Affairs (BIA). In addition, it is possible that savings could be achieved by eliminating the need for the Department of Commerce sponsored service to the Pribilof Islands. Finally, the Government would have another potential bidder for the Adak military contract, thus potentially reducing the cost of that service.

5. *Western Alaska Outer Continental Shelf Oil and gas lease sales*

The Department of the Interior has 16 major lease sales scheduled on Alaska's Outer Continental Shelf between now and 1986. The attached map shows the lease areas and the dates of the scheduled leases. The Aleut Alaska/APL proposed service would greatly reduce the costs of exploration and development in these lease areas. In turn, reduced transportation costs to the oil and service companies will result in increased bonus bid revenues to the Federal Treasury. USGS estimates that these lease sales areas contain up to 14.6 billion barrels of crude oil and up to 62.3 trillion cubic feet of natural gas. The Department of the Interior estimates that full exploration and development of these areas between now and the year 2000 will require 210 exploration wells; 97 platforms and 3,203 development or production wells. Moving the materials necessary for these major developmental activities will create a new, very large and growing market for transportation services. (Draft Supplement to the Final Environmental Statement: Proposed Five Year OCS Oil and Gas Lease Sale Schedule, January 1982–December 1986, pages 7–17.)

6. *Agriculture and geothermal*

Unalaska and the adjacent islands contain millions of acres of prime agricultural land. Studies of the agricultural potential of these lands have been done by the State of Alaska and Western Farm Management consultants for private parties.

These studies uniformly demonstrate the carrying capacity of the land for the grazing of cattle and sheep. However, they also uniformly identify the inability to ship products to market as a principal impediment to agricultural development.

Similarly, Unalaska and the adjacent islands contain one of the most important geothermal resources in our country. Until such time as the Aleutians have an efficient and economic transportation system, however, the geothermal resource cannot be economically harnessed for either agriculture or energy for the processing of raw materials.

CONCLUSION

We have appreciated the opportunity to testify before this Subcommittee. We are hopeful that after you carefully review the hearing record that you will decide in a timely manner to amend the Merchant Marine Act of 1936 to permit a subsidized carrier such as APL to provide service to Dutch Harbor, Alaska upon the condition that the subsidy be repaid. We are prepared at this time to answer any questions which the members of the Committee or staff may wish to pose.

[Attachment A]

History of the Aleut Corp.

On December 18, 1971, the Alaska Native Claims Settlement Act became law, returning to Alaska's Aleuts, Eskimos and Indian people 40 million acres of land along with a $962.5 million cash settlement to compensate for the loss of other lands. The Claims Settlement Act provided for the establishment of 13 regional corporations based on existing territories represented by various native associations.

The Aleut Corporation, one *of these 13 regional corporations*, is a business incorporated in Alaska as a "for profit" corporation. It is involved, together with village corporations in its area, in decisions on land selection; borrowing, spending and investing money; and effecting changes to improve the communities of the Aleutian Chain economically and socially.

ALEUT ALASKA SHIPPING CO., FACT SHEET

(Operations as of August, 1981)

Fleet: Two breakbulk vessels:
Aleut Packer, 461 dwt, capacity 445 tons.
Snowbird, 488 dwt, capacity 256 tons.

Service: Seattle to points in Aleutian Chain and western Alaskan; 18 round-trip line-haul voyages per year.

Alaskan points now serviced: Chignik, Sand Point, Squaw Harbor, King Cove, Cold Bay, Akutan, Unalaska, Dutch Harbor, Golovin, Emmonak, Pribilof Islands (St. George, St. Paul), Bethel, Port Moller, Naknek, Pedersen Point, Ivanoff Bay, Perryville, Port Williams, Uyak Bay, Port Bailey and other points.

History: Formed 1978 as Alaska Shipping Co., name changed 1980.

Ownership: Alaskan owned (wholly owned subsidiary of Aleut Corporation, Anchorage, Alaska).

Contact: Agafon Krukoff, president, Aleut Corporation, 2550 Denali Street, Suite 900, Anchorage, AK 99503, tel: 907/274-1506; or Robert Miller, same location. In Seattle contact Angus Whyte, General Manager, Aleut Alaska Shipping Company, 5345-28 Ave. NW., Seattle, Wash. 98107, tel: 206/789-3720.

AMERICAN PRESIDENT LINES, LTD., A TOTAL TRANSPORTATION COMPANY—FACT SHEET

Fleet: 22 U.S. Flag vessels—17 containerships, 5 multi-purpose ships—among the largest single fleets operating from North America to Pacific Basin ports.

Equipment: An inventory of 37,000 dry and refrigerated containers and supporting chassis. Container inventory includes 40′ and 20′ standard, hi-cube and super hi-cube units. Flatracks and specialized containers for hanging garments and meats also are provided.

Service: North America including U.S., Canada, Alaska, Mexico and Puerto Rico—Weekly, North Asia-Weekly, South Asia/Middle East—Every 14 days.

Principal areas served: Guam, Hong Kong, India, Indonesia, Japan, Korea, Malaysia, Okinawa, Pakistan, People's Republic of China, Philippines, Saudi Arabia, Saipan, Singapore, Sri Lanka. Thailand, Taiwan, U.A. Emirates.

Intermodal services: Mini-landbridge using rail to Atlantic and Gulf Coast ports.

Linertrain. Network of APL exclusive-use trains that are monitored and programmed to provide expedited rail service for APL cargo.

ThruService using truck and rail to cities throughout mid-America.

Landbridge. Connecting Europe and Asia.

Sea-Air Service throughout North America.

Other services: Conventional cargo service including bulk and liquid cargoes between West Coast of North America and a wide range of Asian ports.

Passenger accommodations: Twelve APL vessels each accommodating 12 passengers.

Headquarters: 1950 Franklin Street, Oakland, California 94612.

History: Formed April 1848. Present name dates from 1938.

Ownership: U.S. owned (wholly owned subsidiary of Natomas Company, San Francisco, California).

Contact: Stephen J. Potash, Potash & Company, 225 Kearny Street, Suite 400, San Francisco, California 94108, Telephones: Offices—(415) 982-8044; Home—(415) 530-1255.

APL'S HISTORY IN ALASKA

APL's history in Alaska goes back to the 1880s when an early predecessor, Pacific Coast Steamship Co. (PCSSC) extended its coastal sailings to the newly acquired territory of Alaska. Wooden side-wheelers brought people and supplies to the remote territory, returning south with cargoes of fish, furs and minerals.

The discovery of gold in 1898 brought frenzied activity to the company's service. Prior to the gold discovery, the Alaskan trade was more than adequately handled by four PCSSC steamers. A flood of northern stampeders engulfed this small fleet of regular packets and the company rushed to place vessels in service to meet the demand. The excitement which prevailed for the next two years was set with the departure on July 18, 1898, of the AL-KI, first steamer to reach the Alaskan gold fields: "She was crowded to full passenger capacity. * * * In addition to regular cargo she was laden with 350 tons of miners supplies, 900 sheep, 65 head of cattle and 50 horses, all in a small wooden steamer of 1,200 gross tons".

As the result of the attention focused on the territory by the gold fields, a profitable Alaska tourist excursion trade developed for PCSSC. The SPOKANE, especially designed to accommodate the tourist trade, was delivered to PCSSC in 1902. The finest vessel yet to serve the route, the SPOKANE carried 171 first class passengers in comfortable accommodations and 100 in steerage for the heavy movement of cannery workers carried in the spring and fall.

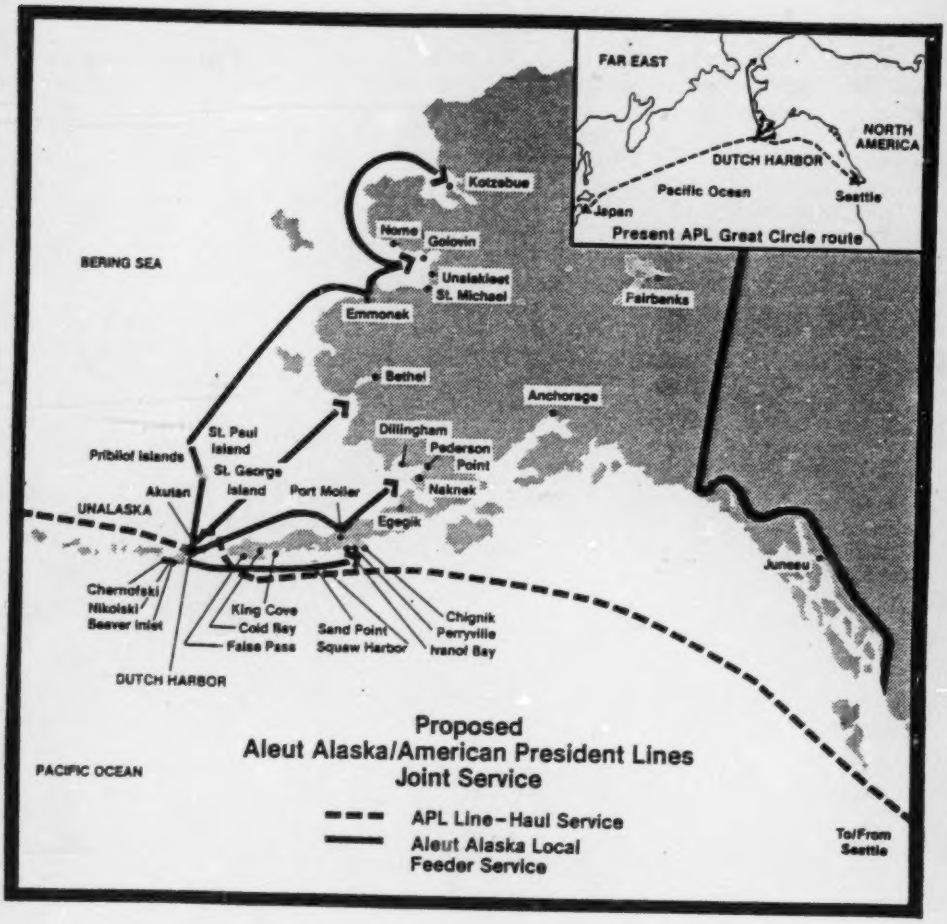
Since its beginning, PCSSC dominated the route along the Pacific Coast, providing freight and passenger service from Alaska to Mexico. In 1916 a new house flag was raised when the pioneer firm consolidated with a competitor, Pacific Alaska Navigation Co., to form the Pacific Steamship Co. (PSSC), using the trade name The Admiral Line.

With an imposing fleet of Admiral-named vessels and the motto "Safety, Courtesy and Food," the company continued to be a favorite with the shipping and traveling public. The days of coastal steamship service, however, were rapidly passing.

Labor unrest, higher operating costs and competition from other transportation modes brought about the withdrawal of the company's Alaskan service in 1935. The following year witnessed the end of all regular coastal service provided by the PSSC. An era in Pacific Coast steamship history came to a close.

In 1979 APL, the descendent company, began serving Alaska. Today the company's large trans-Pacific containerships are as familiar a sight in Alaskan ports as the pioneer coastal side-wheelers of yesterday.

[Attachment B]



Attachment C

Aleut Alaska Segment of Joint Service with APL

Frequency of Feeder Service between Dutch Harbor and Western Alaska

	Jan.	Feb.	Mar.	Apr.	May	June	July	Aug.	Sept.	Oct.	Nov.	Dec.
Akutan	MO	WK	WK	WK	MO	MO	MO	WK	WK	WK	WK	MO
Chernofski	△	△	△	△	△	△	△	△	△⃝	△⃝	△	△
Nikolski	△	△	△	△	△	△	△	△	△⃝	△⃝	△	△
Atka						△	△					
Belkovski	△	△	△	△	△	△	△	△	△	△	△	△
Beaver Inlet	WK	WK	WK	WK	△	MO	△	MO	WK	WK	WK	MO
False Pass	△	△	△	△	MO	MO	WK	WK	MO	△	△	△
Cold Bay	MO	MO	MO	MO	MO	MO	MO	MO	WK	WK	WK	MO
King Cove	MO	WK	WK	WK	MO	WK	WK	WK	WK	WK	WK	MO
Squaw Harbor/ Sand Point	MO	WK	WK	WK	MO	WK	WK	WK	WK	WK	WK	MO
Perryville	△	△	△	△	△	△	△	△	△	△	△	△
Ivanoff Bay	△	△	△	△	△	△	△	△	△	△	△	△
Chignik	△	FTN	FTN	FTN	MO	FTN	FTN	FTN	FTN	FTN	MO	△
Pribilof Islands	△	MO	△	△	MO	MO	FTN	FTN	MO	△	MO	△
Pederson Point/ Naknek/Dillingham				△	MO	FTN	FTN	FTN	MO			
Emmonak						MO	MO	MO	△			
Bethel						MO	MO	FTN	MO			
Port Moller	△	△	△	△	△	MO	△	MO	MO	MO	△	△
St. Michael						MO	△	MO	△			
Unalakleet						MO	△	MO	△			
Nome						△⃝	△⃝	△⃝	△⃝			
Golovin						MO	MO	MO	MO			
Kotzebue						△⃝	△	△⃝	△			

WK—Weekly
MO—Monthly

FTN—Fortnightly
△ Seasonal/Inducement

△⃝ Under Consideration for Regular Service

[Attachment D]

FREQUENCY AND TRANSIT TIME TO DUTCH HARBOR

SERVICE TO DUTCH HARBOR

APL—Frequency: Every 7 days southbound; Every 14 days northbound.
Transit time: 3½ days—Seattle to Dutch Harbor.
Foss—Frequency: Every 30 days.
Transit time: 21 days from Seattle to Dutch Harbor.
Sea Land—Frequency: Non-scheduled.
Transit time: 15-day service.
Western Pioneer—Frequency: Unknown.
Transit time: Unknown.

INCREASE IN FREQUENCY TO OUTLYING COMMUNITIES

[Present number of existing port calls versus proposed additional number]

	Calls per year		Percent of increase
	Total existing calls	Additional calls	
Pribilofs	4	5	125
Pederson Point/Naknek	61	8	13
Emmonak	3	3	100
Bethel	13	5	38
Port Moller	27	4	15
Nome	11	5	45
Golovin	3	5	167
Kotzebue	5	2	40
Akutan	66	8	12
Beaver Inlet	20	28	140
False Pass	25	7	28
Cold Bay	20	21	105
King Cove	61	27	44
Squaw Harbor/Sand Point	91	23	25
Chignik	96	8	8

Source: Impacts of Domestic Trade Restrictions on Dutch Harbor/Unalaska, Sept. 1981, Williams-Kuebelbeck & Associates, Inc.

QUALITY OF SERVICE

Percent of increase of service is understated if frequency alone examined.
Fisheries service; not general common carrier service.
Seasonal service.
Service by inducement only.

[Attachment E]

SEA-LAND GETS THREE MARAD SHIPS

The Maritime Administration last week approved bids by Sea-Land Service, Inc., to exchange three of the aged vessels for three C-4 troopships, which will be converted into full containerships.

Containership Chartering Service, a Delaware corporation jointly owned by National Bulk Carriers, Inc., and Litton Industries Leasing Corporation, will take title to the vessels and, after conversion, charter them to Sea-Land.

Earlier this year, Sea-Land agreed to charter seven converted containerships from Litton Industries, Inc., and National Bulk Carriers. The agreement was part of a $9 million stock purchase deal that increased the two firms' interest in Sea-Land's parent, McLean Industries, Inc., to 10 percent (Litton) and 12½ percent (National Bulk) of common shares outstanding (PACIFIC SHIPPER: June 12).

MarAd approved Sea-Land's applications to exchange the ferryboat Wilkes Barre for the C-4 troopship General D. E. Aultman; the passenger ship John A. Meseck for the C-4 troopship General M. M. Patrick and the bulk carrier Peavey Pioneer for the C-4 troopship General H. B. Freeman.

When the ship exchange contracts are executed, Sea-Land will pay MarAd $1,502,500. The sum represents the value of C-4's ($518,000 per ship) over that of the

Sea-Land vessels, The Wilkes Barre, built in 1904, is valued at $5,500, John A. Meseck (1929) at $6,000 and Peavey Pioneer (1905) at $40,000.

Source: Pacific Shipper, Nov. 13, 1967.

SEA LAND VESSEL EXCHANGE—SEA LAND SHIPS IN ALASKA TRADE

Ship	Year built	Year exchanged	Type of vessel exchanged
Portland	1945	1967	Ferry boat.
Philadelphia	1945	1967	Ferry boat.
Newark	1945	1967	Ferry boat.

Vessel Exchange Act

[PUBLIC LAW 96–575 AND PUBLIC LAW 89–254]

"This bill would assist these unsubsidized operators to upgrade their fleets without the vast outlays that new construction would would entail." *House Report No. 1652, 86th Cong.*

"As to ships which carriers will acquire under this legislation, it is clear from the outset that they will obtain them at a cost which is far below the reproduction cost new. They will under this legislation get a bargain. They will get a new ship in exchange for an old one at what may reasonably be anticipated to a *very good price indeed.*" Senator Gruening, Hearings on S. 1956, 86th Cong. (italic added)

"The purpose of this provision was to provide an advantage in improving the fleet of the nonsubsidized operators *over the subsidized operators.*" Senate Report No. 373, 89th Cong. (italic added)

"The purpose of this provision was to provide an advantage in improving the fleet of the nonsubsidized operators *over the subsidized operators.*" Senate Report No. 373, 89th Cong. (italic added)

[The following information was subsequently received for the record:]

Questions of Senator Gorton and the Responses of the Aleut Corporation

Question. Why hasn't the Aleut Corporation sought to arrange connecting carrier service with other existing non-subsidized carriers?

Answer. As a result of the losses suffered by Aleut Alaska Shipping Company (hereinafter referred to as AASC) over a period of time, approximately one year ago the Aleut Corporation began to analyze all past, present and announced future Alaska carrier service to the Aleutians. The goal of the Aleut Corporation has been to provide an economical and efficient service to the Aelutians and Western Alaska on a profitable basis. All possible alternatives were explored.

The opposition has presented testimony concerning the difficulty of providing profitable service to a widely defused area, characterized by a small population and seasonal economic activity. These difficulties were apparent to the Aleut Corporation during its analysis. The only viable solution was determined to be the marriage of an incremental line haul service by an existing international carrier sailing the Great Circle route with a localized feeder service. As American Presidents Line (hereinafter referred to as APL) was already sailing the international route and committed to the international trade from Dutch Harbor, they were the logical choice.

The very geographical and economic characteristics which the opposition argues precludes improvement of transportation services to Western Alaska, pointed to American Presidents Line as the only presently available steamship carrier capable of efficiently and economically providing a line haul service to and from the west coast of the United States and Dutch Harbor as an incremental service.

Had Sealand, for example, historically determined to construct their vessels utilized in the international trade in the United States, the Aleut Corporation certainly would have considered a line-haul/feeder concept with Sealand's international carrier. However, Sealand utilizes the cheapest alternative, foreign built ships, in international trade. As a result, a line haul service which makes sense geographically, utilizing Sealand's ships, would require a change in the Jones Act, a highly unlikely event. Thus, Sealand's international carrier is not capable of providing an incremental line haul which would compare favorably with the APL/AASC proposal.

Similarly, when the Aleut corporation analyzed the potential for an incremental line haul service by Foss or Sealand's domestic operations, it again became apparent that a cost-effective, efficient transportation system serving the Aleutians and Western Alaska was not possible.

Sealand's equipment presently consists of three World War II ships which have been reconditioned for the Alaska trade. In addition, Sealand's domestic line haul is from Seattle to Anchorage, then Kodiak, and back to Seattle. This line haul is geographically impractical in terms of improved service to Western Alaska. While Sealand may very adequately serve Anchorage and Kodiak, Sealand's line haul service is precluded by its limited capacity and geography from cost-effectively and efficiently serving Western Alaska.

Foss is in much the same position. Foss utilizes tug and barges which are inherently inefficient for an economical line haul service as they lack the requisite speed. In addition, the Foss line haul is from Seattle to Sitka, with a feeder service across the Gulf of Alaska to Dutch Harbor and Adak. While the Adak contract may carry the cost of Foss' operation, Foss' equipment coupled with geography precludes Foss from efficiently and cost-effecitvely serving Dutch Harbor and Western Alaska in a manner comparable to APL.

The Aleut Corporation's careful analysis of other shipping companies, therefore, demonstrated that only a carrier sailing the Great Circle Route to the Orient could provide a rapid, efficient and cost-effective line haul service. Once that decision was reached, the remaining question was whether the carrier would operate domestically under the Merchant Marine Act of 1936 or as a result of a waiver to the Jones Act.

A review of the legislative history of the Merchant Marine Act of 1936 demonstrated that the exemption requested by APL and the AASC squarely fits within the parameters of the act. This was not the case with the Jones Act. For the above reasons the AASC sought to arrange connecting carrier service with APL.

Question. Mr. Krukof, only last year, when APL sought approval by the House of Representatives for a similar exemption to serve the domestic Alaska trade, you sent a telegram to Senator Stevens and Congressmen Young, stating:

> APL is large enough that it would potentially destroy the smaller freight service currently provided by Alaska Shipping Company, Western Pioneer, Foss, and others. Allowing APL to step in and monopolize would be a crime to all Alaskans involved in the shipbuilding business.

What caused Aleut Alaska to change its mind?

Why has Aleut Alaska refused to acknowledge proposals by Foss and Sealand to help provide the same kind of service that is being proposed by Aleut Alaska and APL?

Do you believe this agreement is the best potential investment of Aleut capital?

(a) The question as to what caused Aleut Alaska to oppose the APL exception, then change its position to set forth is simple. The Aleut Corporation does not deny that it initially opposed APL. However, a careful review of the existing transportation system demonstrated that the initial position of the Aleut Corporation was wrong.

The Corporation's initial position before the House of Representatives resulted from the recommendation of previous management of AASC. In reviewing their performance, it was discovered that this wasn't the only error in judgment which was causing AASC to lose large sums of money. There were others.

Thus, the change in position, vis-a-vis APL's line haul, was only one of a number of changes made in AASC. These changes, including changing the management team, are aimed at reversing its business losses. As our indepth analysis of AASC's operations demonstrate, the only method of providing the Aleutians and Western Alaska with a rapid efficient and cost-effective transportation system is to utilize an international carrier sailing the Great Circle Route in the domestic trade. This decision mandated a reversal of the initial position. (See the Respone to Question No. 1 for full explanation of the results of the analysis.)

(b) Aleut Alaska has not refused to acknowledge proposals by Foss or Sealand. It must be understood that neither Foss nor Sealand are capable of providing a comparable service to that which will be provided by APL. Irrespective of that fact, Aleut Alaska had in fact approached both Sealand and Foss during the period which options for improving the profitability of AASC's enterprise were being explored. Neither Sealand nor Foss would respond. Subsequent to the arrangement between Aleut Alaska and APL, Sealand and Foss came forward with "proposals." These proposals have not been comparable either as to efficiency, cost-effectiveness nor has Sealand or Foss been willing to quantify their proposals. Regardless, neither Foss nor Sealand have the capability, the equipment nor the route structure which would allow them to provide an incremental line haul on an efficient and cost-effective service.

Aleut Alaska, however, would welcome any proposal by Foss and Sealand which would provide a rapid, efficient and cost-effective service.

(c) The Alaska Native Claims Settlement Act, Sec. 7(1), permits the regional corporations to pursue, when feasible, investment ventures which would benefit the region generally. One of the main impediments to development in the Aleut region, and in Western Alaska, is that there is no common carrier transportation system to that area. On the other hand, there is an abundance of natural resources which could be developed if, among other factors, there were adequate transportation.

The long-range benefit to the Aleut shareholders from the proposed exception are twofold: (1) a transportation system comparable to that enjoyed by other Americans so the shareholders' region may develop and, (2) the profits which will result from an efficient commercial operation.

The Aleut Corporation is confident that, absent Congress refusing to treat their region and shareholder equal to others similarly situated, the shipping company will in the long range be profitable and provide improved service.

Question. Aleut Alaska has been losing money on its line haul service to Seattle. Do you believe it could earn a profit if managed tightly?

Answer. There are only two ways which Aleut Alaska can earn a profit. One is to increase freight charges and tie into an existing inefficient system such as Foss and Sealand. The second is to pursue a shipping system similar to that enjoyed by other island territories, possessions, and states located on international trade routes. The first course would increase the cost of both living and business in the Aleutians and Western Alaska. The latter course is fair, logical and consistent with the geography and industry in the region.

AASC will never be profitable if it is necessary for us to perform the line haul from Dutch Harbor to the west coast of the United States on a common carrier basis and provide decent service. The opposition has demonstrated this fact again and again. The characteristics inherent in the region preclude Aleut Alaska from operating a profitable common carrier service under existing conditions. However, AASC now has the management capability to minimize losses under existing restraints and, hopefully, maximize profits if a rational system is allowed.

Question. I understand that 30 percent or so of the cargo now carried by AASC vessels from Seattle is intended for use on Unalaska Island.

If AASC is relegated to the role of providing feeder service from Dutch Harbor to the Islands, hasn't it given up 30 percent of its current cargo at the outset in this new deal?

Would it be APL that would necessarily pick up this 30 percent cargo after AASC discontinued carrying it?

Answer. (a) The revenue sharing agreement with APL adequately protects AASC. Under this agreement AASC will in fact receive revenue from all cargo moving from Seattle to Unalaska on APL's line haul service. While there are no guarantees in business, it is reasonable to assume that the three and one-half day line haul from Seattle to Dutch Harbor by a container ship will be more appealing to previous AASC customers, and others, than the slow break bulk service now provided. AASC is more than willing to assume the risk that the public will prefer the higher cost, inadequate service provided by competitors to the proposed service. As is the case in all new ventures, AASC is only asking for an opportunity to provide efficient and cost-effective service, not a guarantee nor subsidization by the public in the form of institutionalized inefficiency.

Question. Won't Aleut Alaska become dependent and subservient to APL for its traffic and financial viability?

Answer. Both carriers will be dependent upon each other under the written agreement. The agreement with APL requires that each tender to, and receive, cargo from the other. The agreement protects both parties equally. The economics of the agreement insure that each party will be equally treated and that the AASC will not have a subservient role.

Question. AASC's vessels benefit from relaxed inspecting standards under the Magnuson Amendment in turn for limiting their service to fisheries-related cargo.

How will they be able to use these vessels to provide feeder service for non-fisheries cargos?

If APL were not providing the Aleuts with a barge, could AASC handle the non-fisheries cargo?

Won't there be substantial problems at Dutch Harbor in handling and reloading cargos especially non-fisheries cargo for distribution to outlying islands through the feeder service?

Answer. (a) Aleut Alaska, when carrying non-fishery related cargo, would either continue to charter with the appropriate commercial or government entity, or utilize equipment which would meet the inspection requirements. Aleut Alaska can carry the non-fisheries cargo on a charter basis with existing ships.

(b) Whether or not APL provided a barge, Aleut Alaska will acquire the equipment necessary to handle cargo in accordance with existing statutes. Parenthetically, it should be noted that APL's agreement to provide Aleut Alasks with equipment is merely a shift of a business opportunity from Foss to Aleut Alaska.

APL needs a tug for docking at Dutch Harbor once a week. APL presently provides Foss with significant revenues by leasing the tug from Foss. The fact that Aleut Alaska will have the opportunity to lease a tug to APL is merely a business opportunity for Aleut Alaska. It is not in the form of gratutitous handout from APL. It is true that Aleut Alaska, under the proposed system, will be able to utilize the tug in its feeder service when it is not used by APL. This is just one more example of how the APL/Aleut Alaska service will be more efficient than the existing service.

(c) APL's facility at Dutch Harbor is the most modern and efficient container terminal in western Alaska. There is sufficient space both on the APL terminal and adjacent to it to handle any unforeseen cargo volumes. The Dutch Harbor Development Corporation, 50 percent owned by the Aleut Corporation, presently leases the ground upon which the terminal sits. APL's lease does not encompass all the acreage owned by the Dutch Harbor Development Corporation and, therefore, any spillover will be adequately provided for on land owned by the Aleut Corporation in a joint venture with the Ounalashka Corporation, the village corporation for Unalaska.

QUESTIONS OF SENATOR GORTON AND THE RESPONSES OF AMERICAN PRESIDENT LINES

Question 1. How much subsidy (CDS and ODS) would APL anticipate repaying in a year of this joint service?

Answer. Under S. 1681, APL's repayments would be determined in accordance with the legislative formula contained in sections 506 and 605 of the Merchant Marine Act of 1936. This formula is as follows:

1. CDS repayment equals annual gross domestic revenues and annual gross revenues for all voyages in that trade times 1/25 CDS payment.
2. ODS repayment equals gross domestic revenue and annual gross revenue on entire voyage times ODS payment.

Under this formula, it is not possible to know the amount of repayment until gross revenues for the domestic leg and the entire voyage are known.

Question 2. How can any pro rata repayment of construction differential subsidy (CDS) account for the initial advantage APL received in capitalizing expensive, fast, efficient, and modern vessels?

Answer. Since 1936, it has been assumed that the pro rata repayment of CDS could account for advantages a carrier receiving CDS may have received. APL is not aware of any studies that refute the assumptions contained in the 1936 Act.

Of course, to the extent one asserts that a pro rata repayment is unfair, then MARAD in a section 805(a) proceeding can take such assertions into account. In such a proceeding the advantages of vessel exchange programs and other forms of government benefits available to existing carriers in the domestic trade can be compared to the alleged advantages APL would enjoy even with pro rata repayment of subsidy.[1]

If the Committee does not wish to rely upon a section 805(a) proceeding but would rather establish a repayment formula specifically applicable to the Seattle to Dutch Harbor trade, then APL would welcome the opportunity to discuss such an approach with the Committee. APL would like to point out, however, that it may require offsets of certain benefits available to existing carriers from vessel exchange programs or foreign operations in order to establish basic fairness to all. For example, Mr. Hiltzheimer says "[T]here is no practical way to separate the flow of subsidy money to a carrier that is operating in the foreign commerce from a spillover of that subsidy money into domestic commerce."[2] By building in foreign yards and by receiving federal monies for their SL-7's, and by engaging in acquisition of U.S. Government built ships, SeaLand may be receiving or may have received advantages for their domestic operations in Alaska which make APL's receipt of CDS and ODS pale in comparison. Any new formula would logically have to treat the SeaLand advantages legislatively as well.

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[1] See, *e.g.*, slides 32 and 33 of Aleut/APL oral presentation and attachment E of prepared testimony where the governmental benefits of the Vessel Exchange Act accruing to the benefit of Sea Land are discussed.

[2] Transcript, p. 81.

APL will elaborate on its response to the question set forth above in responses to related questions below.

Question 3. TOTE asserts that principal among advantages to APL of operating subsidized vessels, even with a repayment formula, "would be that APL would not have to set rates in its domestic service which contributed to its fixed costs or enabled it to earn a profit. Instead, APL could reply on its government subsidies and its international cargo for its profits . . ." How does APL rebut this concern?

Answer. First, APL's profits in the foreign trade are the result of its efficient operations, not its subsidies. Its ODS subsidies merely allow APL to compete against foreign carriers which have lower wage rates or other labor advantages. Its CDS subsidies merely permit APL to build ships in U.S. yards and still have a chance to compete against foreign competition or U.S. carriers in the foreign trade who have constructed their ships in foreign yards (e.g., Sea Land) at substantially lower costs. In fact, the CDS subsidy does not begin to equalize the difference between U.S. and foreign yard construction costs.

A November 30, 1981 report by the Comptroller General of the United States entitled "Maritime Subsidy Requirements Hinder U.S.-Flag Operators' Competitive Position" (hereinafter GAO Report) documents this point. The report asserts that building vessels in the U.S. places ODS operators at a disadvantage. This occurs because of the 50-percent CDS ceiling. The GAO Report cites numerous recent Marad and industry studies which point to the inadequacy of the CDS ceiling.

The GAO Report cites an unsubsidized carriers' claim that CDS is inadequate:

Sea-Land Service, Inc., the only remaining unsubsidized U.S.-flag liner operator, recently procured 10 new slow-speed, diesel-powered container vessels from Japan and 2 from Korea. Sea-Land, because it does not receive ODS, had the option of building its vessels in the United States with CDS funds or overseas. After a thorough analysis of all alternatives, Sea-Land decided to build its vessels overseas. Congressman Paul N. McCloskey, Jr., asked Sea-Land why it made such a decision "in spite of the Construction Differential Subsidy Program designed to equalize costs between foreign built and subsidized U.S. built vessels."

Sea-Land responded that there were four reasons for deciding to procure its vessels overseas. Among the reasons was cost. Sea-Land stated that the vessels were contracted for $30 million each. Its ship construction department estimated that U.S. construction cost would have been about $80 million each. The $50 million difference would not have been entirely covered by CDS because of the 50-percent limitation which would have limited the CDS on each vessel to $40 million. Consequently, Sea-Land claims it would have paid a penalty of about $120 million to build the 12 vessels in U.S. shipyards. (Page 11)

APL believes that the differential is greater than that reported by Sea-Land. APL's position is also explained in the GAO Report:

We discussed the inadequacy of CDS with a Vice President of American President Lines, Ltd. (APL) that contracted for three similar, but larger, vessels at about the same time as Sea-Land. However, because it received ODS, APL had to purchase its vessels in the United States. APL's position is similar to Sea-Land's—CDS is inadequate to cover the true differential between the cost of building a vessel in the United States and building it in a foreign shipyard.

The original cost of building APL's vessels in a U.S. shipyard was about $90 million each. MarAd had determined that the CDS rate was 49.98 percent and that it would pay CDS funds of about $45 million toward the cost of each vessel. According to APL, the true differential is significantly higher than 49.98 percent and, therefore, APL believes it is paying a penalty of about $13 million per vessel for building in a U.S. shipyard. APL believes that it had no choice but to go along with the CDS being offered by MarAd. According to APL, if it had not built its replacement vessels in the United States, it would have been violating its ODS contract. (Page 11 and 12)

APL's foreign operations are profitable because of its efficient operation, not because subsidies create artificial profits which can be used to price domestic service below a point which produces positive net revenues. APL's pricing of service for its proposed domestic service will be based on sound economics designed to increase overall profits. Otherwise, there would be no reason for APL to seek the authority to serve Western Alaska in concert with the Aleut Alaska Shipping Company (AASC).

Put another way, if APL is making a profit while conducting current operations, any additional positive net revenues will add to its profits. This would be true of any profitable carrier. APL would not desire to carry cargo on the domestic leg of a foreign voyage which did not provide positive net revenues.

Therefore, TOTE's concern is misplaced for several reasons. First, TOTE does not serve Dutch Harbor. Second, APL will not set rates so as to lose money. Any assertion that APL will do so is incorrect.

Question 4. The Crowley statement argues that: "Because APL's subsidized Trans-Pacific operations already support its service, APL unlike the unsubsidized operators, does not have to rely upon the relatively small repayment of subsidy contemplated by S. 1682 cannot significantly reduce that advantage." How do you refute this argument?

Answer. It is true that APL does not have to rely on the Western Alaska trade to maintain its operations; neither does Foss, Crowley, SeaLand, or Tote. There are several carriers who may rely on the Western Alaska trade (e.g., AASC and Western Pioneer). Therefore, Crowley is incorrect when it says the so-called unsubsidized carriers rely upon the relatively small Western Alaskan trade.

What Crowley and others seem to be saying is this:

APL can offer a more efficient service at lower cost. Keep APL out or if you allow them in, penalize them so that their inherent efficiency is eliminated. If the pro rata formula does not penalize them enough, then have them repay all the subsidy.

Sea Land may believe that even complete subsidy repayment might not be a sufficient penalty to keep APL out of the trade. Sea Land recommends that all ODS APL receives in all trades be repaid in order to insure that the penalty is high enough to make the service economically unattractive to APL.

APL believes that the issue is this: What subsidy repayment formula will prevent APL from receiving subsidy for the movement of domestic cargo in connection with a foreign voyage? APL should not be penalized for its efficiency in the foreign trade or the essential efficiency of the service it is proposing to offer simply because that service is competitive. APL does not refute Crowley's statement that APL will have an advantage. APL will have the advantage of a more efficient service, but there is no unfairness in that advantage. There is no other advantage. The repayment formula under existing law prevents any subsidy from foreign trade from flowing into the domestic operations and, therefore, eliminates any subsidy advantage. But APL's competitive advantage as a result of efficient operation is not eliminated; nor should it be in APL's opinion.

Question 5. Isn't it true that Congress in 1936 was very concerned about competition between subsidized and nonsubsidized carriers and that is why: first, the general rule was that subsidized vessels could participate only in foreign trades; second, the exceptions under Sections 506 and 605 were limited to islands where no domestic carrier needed protection; and, third, in any case MARAD had to determine under Section 805 that there would be no anticompetitive result before such an exception would be made?

Answer. It is true that the general rule was that subsidized vessels could participate only in the foreign trade.

It is not true that exceptions under Sections 506 and 605 were limited to islands where no domestic carrier needed protection. There were four basic exceptions. Only one of these concerned island possessions or island territories. As to the assertion that no domestic carrier then serving those islands needed protection, APL does not understand what that means and, therefore, cannot comment as to the truth or untruth of the statement. For example, does the assertion mean that there were no unsubsidzed carriers serving the islands? Or does it mean that the unsubsidized carriers were so secure that they did not need the total protection of excluding competition. And what was the situation with regard to the other three areas of exception? (No unsubsidized carriers? Subsidized carriers were totally secure?) APL's review of the legislative history indicates completely different reasons for the island exceptions.[3]

It is true that MARAD has to make a determination under section 805(a). The tests are "unfair competition" or "prejudicial" to the objects or policy of the Act not "anticompetitive."[4]

Question 6. Suppose instead of requiring repayment of a pro rata share of CDS for the domestic leg, we required repayment for the whole voyage. Would APL still want the amendment?

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[3] See page 12 of APL's prepared statement.

[4] See slide 30 of APL/Aleut oral testimoy and page 20 of the prepared statement.

Answer. APL has built its ships in U.S. shipyards to further governmental objectives such as the maintenance of U.S. shipbuilding capacity for defense reasons and the employment of U.S. workers. As a necessary inducement to building its ships in U.S. yards, APL has received CDS and ODS. These government payments have not created equality with U.S.-flag competitors who have built vessels in foreign yards,[5] But APL has managed to compete successfully in the foreign trade. It is in a position by reason of its current operations in the foreign trade to offer domestic service to Western Alaska in connection with its foreign service. The service would compete with existing service. Such competition would be unfair if APL received subsidy for its domestic activities. The pro rata repayment formula prevents APL from receiving subsidy for its domestic activities.

It is true that subsidy is responsible for APL's participation in the foreign trade. But APL has succeeded in the foreign trade because of its efficiency of operation not because its subsidy is larger than necessary to create equality with its competition in the foreign trade. The opposite is true. The subsidy has not been sufficient to create parity; nevertheless APL's efficiency of operations has allowed it to compete and earn a profit. These are examples of other U.S. carriers who have not been able to compete in the foreign trade even though they have received ODS and CDS. Several of these carriers have even become insolvent.

A requirement of total repayment of subsidy would amount to the imposition of a penalty on APL for its efficiency in the foreign trade and the efficiency of its proposed domestic service. APL is at a loss to understand why Congress would impose such a penalty. At best it would raise costs for transportation to Western Alaska unnecessarily. At worst, it would make uneconomic the service being proposed. APL is presently examining the projected economics of a complete repayment of subsidy, but there does not seem to be any valid policy reason for the imposition of such a penalty.

Question 7. Shouldn't any formula for repayment of CDS include interest over the period since APL received the CDS at the time of construction?

Answer. APL is prepared to work with the Senate Merchant Marine Subcommittee to explore changes in the subsidy payback formula which are not penalties but legitimate refinements of the law which further insure that no subsidy benefits are available to APL for the domestic portion of its service.

Question 8. How does APL rebut the charge that they might drive existing subsidized carriers out of the trade?

Answer. APL does not believe that the proposed service of APL and Aleut Alaska will drive existing unsubsidized carriers out of the trade. APL has a completely different view of the transportation needs of Western Alaska than do the existing carriers. APL believes that the transportation needs of Western Alaska will be large enough to support APL and all existing carriers (particularly if there are no transportation constraints initially imposed upon development of Western Alaska's potential.) As we stated on page 9 of our prepared testimony:

None of the existing carriers offers the regular, efficient common carrier transportation service to Western Alaska which Aleut Alaska and APL propose. Given the huge potential for development of Western Alaska's bottomfish, agriculture, and oil and gas, and other natural resources, and the continuing need for breakbulk and outsized and heavy lift cargoes, there will continue to be a substantial need for tug and barge operations from Seattle to Western Alaska. Fisheries development will create a need for continued service by the fisheries-related vessels. Leasing, exploration and development of Western Alaska's outer continental shelf will require very substantial new ocean transport services.

There is another aspect of the transportation market which the existing carriers overlook. Because APL can offer a 3½-day transit time from Seattle to Dutch Harbor, a new market for transportation which does not compete with existing carriers is available. That is the market for the carriage of fresh meat, dairy, and produce to Dutch Harbor and surrounding communities. Existing carriers do not transport such commodities today because transit times are a minimum of 14 days (on a non-scheduled basis) and 21 days on a scheduled basis (Foss). The transit time exceeds the shelf life of these commodities.

APL is in complete agreement with the sentiments expressed by Senator Stevens in the October 16 hearing on S. 1682. APL is aware of the huge potential for bottom fishery expansion. APL pointed out in its oral statement (slide 13) that a recent study commissioned by the Washington Public Ports Association concluded that the "bottom fishery off the coast of Alaska represents over 95 percent of the 200-mile fishery conservation zone expansion potential" for the State of Washington and

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[5] Footnote to be supplied.

Alaska. Nearly 600 new vessels are anticipated for the FCZ bottom-fish fleet by the year 2000. Statewide, cold storage for seafood products is expected to increase by roughly half over its current level, and more than 25 new bottomfish processing plants will be needed. This growth and development of this fishery will require fast, efficient, economical transportation services."

APL's view of the market is also influenced by our knowledge of plans for the development of Alaska's Outer Continenal Shelf. The Department of the Interior has 16 lease sales scheduled between now and 1986. A number of these lease sales will take place in Western Alaska. The transportation needs to establish 210 exploration wells, 97 platforms, and 3,203 development or production wells will create a market which is probably beyond the capacity of existing carriers and APL (in joint service with Aleut Alaska) to meet.

APL believes that the service it proposes will provide needed capacity for an orderly transition to the more complete development of the bottom fishery and OCS. In fact, this transitional service which APL and Aleut Alaska propose may be the key for insuring that Western Alaska's development potential is realized.

We agree with Senator Stevens' statements in the hearing that the existing carriers have not recognized the market potential for transportation services to Western Alaska. Existing carriers are not planning the expansions necessary to meet developing needs.[6] Their failure to plan for expansion is not related to their fear of APL but rather to their myopia with regard to what the market can and will be.

Question 9. Isn't it true that any increased service provided by APL will be offset by concomitant reductions in service by existing carriers?

Answer. Given APL's view of the transportation market in Western Alaska, there will be no need for existing carriers to withdraw in the face of competition by APL and Aleut Alaska. However, were there to be withdrawals of existing service, APL does not believe it would amount to a "concomitant reduction in service." Slides 22 and 23 of the Aleut/APL oral testimony document the increase in service to outlying communities which would result from the instigation of the joint Aleut Alaska/APL service. Slide 23 points out that the quality of service will also be increased because it will be general common carrier service and not merely seasonal service or service by inducement in connection with the transportation of fisheries-related goods northbound. Thus, even if existing carriers failed to see the developing market for transportation services and reduced service to Western Alaska, the reductions in service would still leave Western Alaska with more frequent service and a service of better quality with which to meet the present and future needs of Western Alaska both from a quality life and developmental perspective.

Question 10. What investment has APL made at Dutch Harbor? How is APL involved with the Aleut Corporation in this investment?

Answer. As pointed out on page 6 of the Aleut/APL prepared statement, APL has expended over $16 million dollars to construct a modern container terminal which includes the only gantry crane in Western Alaska. As discussed on page 14 of the transcript, American President Lines has a 20-year agreement with the Dutch Harbor Development Corporation (DHDC) which is 51 percent owned by the Ounalaska Village Corporation and 49 percent owned by the Aleut Corporation. At the end of 20 years the dock will be sold to DHDC for one dollar. APL will have the right to lease the dock after 20 years for a price to be determined by negotiation.

Question 11. Isn't it true that even if we enacted S. 1682, APL and the Aleuts would still have two significant hurdles before they can provide the service: first, the Maritime Administration must decide under section 805(a) of the 1936 Act that the service is warranted and not anti-competitive, and, second, the Federal Maritime Commission must approve their operating agreement for anti-trust immunity under the Shipping Act of 1916? What leads you to beleive you will succeed at these stages?

Answer. It is true that APL and the Aleuts will have two significant hurdles in front of them before they can provide service when S. 1682 is enacted. The Maritime Administration "shall not grant any application if [Marad] finds it will result in unfair competition to any person, firm, or corporation operating exclusively in the coastwise or intercoastal service or that would be prejudicial to the objects or policies of the Act." It is also true that the Federal Maritime Commission must approve the operating agreement under the Shipping Act of 1916. As discussed in response to the answer to other questions, APL believes that it will succeed at these stages because the proposed service will not result in *unfair* competition and will not be prejudicial to the objects or policies of the Act. (Note that the test is "unfair competition" not "anticompetitive.") On the contrary, we believe that the service will be in fulfillment of the objects and policies of the 1936 Act and the public interest. If the opponents of S. 1682 did not concur in our judgment as to our success with respect to these two significant hurdles, it is doubtful that they would be so vigorous in their opposition to S. 1682.

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[6] See Senator Steven's comments on pages 86 and 87 of the hearing transcript.

Question 12. To what extent and in what form is APL providing aid to the Aleut Alaska Shipping Company for operation of a feeder service to Dutch Harbor?

Answer. APL is not providing aid to Aleut Alaska Shipping Company at this time. APL may contract with AASC to operate a tug service for APL vessels in Dutch Harbor. If the proposed service is instituted, Aleut Alaska should not need any aid because their operation will become profitable.

Question 13. Clearly there is now substantial overcapacity northbound from Seattle to Dutch Harbor. The difficulty if any, is southbound, and even that is a strain on existing operators only for several weeks a year during peak crab season. As I understand it, APL now carries empty containers north to Dutch Harbor that it now wishes to utilize for domestic cargo to Dutch. When APL returns from Japan, its vessels normally run full, so it would not provide the service from Dutch southbound to Seattle. In short, it would not provide the service that, arguably, is needed. Isn't that incongruous?

Answer. APL does not share the view that there is "substantial overcapacity northbound". As pointed out in a previous response, there is no capacity to carry fresh foods and vegetables northbound because of the lengthy transit times of the other carriers. In addition, much of the "overcapacity" occurs during certain seasons of the year as vessels providing fisheries related transportation services move north to prepare for southbound movements of fishing products. If one simply examines the capacity in relationship to the quantity of goods moved northbound, one overlooks the fact that during certain seasons of the year there is undercapacity for northbound movement of many products which the communities need. Finally, the concept of capacity must be weighed against the cost of utilizing that capacity and the legal ability to utilize that capacity. Many of the vessels moving north are not, by law, permitted to carry general cargo. The costs of incidental movement of goods by these primarily fisheries-related carriers is also high.

APL also disagrees with the assertion that it would not provide service from Dutch southbound to Seattle. Based upon its own economic forecasts, it would be economically advantageous for APL to utilize unused capacity, increase capacity,[7] or even forego the movement of certain cargoes from Japan to the United States and, instead, carry fisheries products form Dutch Harbor to Seattle. In point of fact, APL is in a unique position to provide southbound movements during the peak periods of the crab and salmon seasons so as to maximize the economic opportunities for fishermen and fish processors. APL is in complete disagreement with the analysis that suggests that it will not or cannot provide for southbound movement.

Question 14. Generally, which is higher valued cargo to the carrier—that leaving Japan for Seattle presently on APL's vessels or that which APL would pick up in Dutch Harbor for Seattle? Would there be any incentive to leave international cargo in Japan to increase space available for domestic cargo in Dutch Harbor?

Answer. Generally, based upon tariffs for the movement of fish products by existing carriers, the higher rated cargo for APL would be refrigerated cargo moving from Dutch Harbor to Seattle rather than dry cargo moving in reefers from Japan to Seattle and points beyond. Therefore, there would be an economic incentive to leave some portion of international cargo in Japan in order to provide space for domestic cargo in Dutch Harbor. APL disagrees with those who would argue that foregoing carriage from Japan in order to transport fisheries products from Alaska to Seattle is inconsistent with the 1936 Act. APL believes that the overriding policy of the 1936 Act is to provide for a healthy U.S. merchant marine. An economic decision by APL to move more domestic cargo from Alaska to Seattle and thereby increase its own economic well-being is consistent with the 1936 Act and with other United States policies, such as those favoring the development of the U.S. bottomfish industry in competition with foreign importers of bottomfish products.

Question 15. Mr. Snavely notes that the seven non-subsidized carriers excluding AASC serving Dutch Harbor made 201 voyages to Western Alaska in 1980 during which their overall capacity utilization was 68 percent. More interestingly, he noted that they sail with excess capacity of 15 percent or more in each of the twelve months in the year. How, then, does APL believe it can improve service to the area?

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[7] APL has larger vessels (C-9s) coming on line in 1982 which could free up other vessels to be used in the Alaska-Orient trade.

Answer. As has been pointed out in previous responses, APL believes it can improve service to the area by offering a service not presently available, namely the movement of fresh food to Dutch Harbor and surrounding communities. Secondly, assuming arguendo that there is excess capacity on the northbound service, the excess capacity is in vessels which are not legally permitted to transport non-fisheries related products. Finally, assuming that the figures in Mr. Snavely's report are correct, any remaining excess capacity is a result of a carrier's inability to market or its lack of desire to market services which are clearly needed in Western Alaska. Inability to market services may result from pricing which is prohibitive. In APL's view, the need is there as evidenced by the testimony of businesses and residents in Western Alaska. APL and Aleut Alaska are prepared to meet that need with an efficient, low cost service which existing carriers are not offering. In APL's view the alleged overcapacity does not indicate that current transportation needs are being met. To the contrary, it indicates that the random, haphazard, nonscheduled aspect of transportation services in Western Alaska cannot be organized to meet present and future transportation needs which will promote development and improve the quality of life.

Question 16. Mr. Snavely notes that, "too much cargo becomes available for lifting in too short a time period in a trade that otherwise is characterized by a low utilization of its capacity." Won't the same factors make APL as reluctant to invest in more refrigerated containers as existing carriers are to invest in more vessel tonnage?

Answer. At the present time, APL is carrying dry goods in refrigerated containers from Japan to the United States. APL has sufficient refrigerated container capacity in ships transiting from Japan to Seattle on the Great Circle route to accommodate needed lifting in a short period of time. As pointed out in the Williams-Kuebelbeck study on page 20, APL vessels could accommodate a large portion of the peak transportation needs of the crab and salmon fishery by moving their refrigerated containers empty from Japan to Dutch Harbor and loading them for transit to Seattle. The Williams/Kuebelbeck study is mistaken in assuming that APL ships transit once every two weeks on the Japan to Seattle voyage. Under present service configurations APL vessels pass Dutch Harbor in route to Seattle once every week. The odd-week ship performs a triangular service from Oakland to the Far East and back to Seattle via the Great Circle route. APL will not be reluctant at all to invest in more refrigerated containers. In fact, APL is investing in up to 500 more 40 foot reefers so that it will have the largest refrigerated container fleet in the Pacific Basin. APL will not be reluctant to make future investments because its views of the market correspond with those of Senator Stevens and others knowledgeable about Alaska; the market is expanding and expandable. APL does not subscribe to the views of existing carriers that the current market is static and investments in anticipation of future growth are not justified.

Question 17. If APL successfully competes with the unsubsidized carriers in off-peak seasons, won't the unsubsidized carriers have to reduce their investment making it difficult or impossible to respond to the surges of [sic] available at peak season?

Answer. In the first place, APL does not believe that it has the capacity to serve all southbound movements of fish products, particularly during the peak season. If the bottom fishery develops to its full potential as a result of affordable transportation service, then APL will not have the capacity to handle all off-peak bottom fishery movements. If the existing carriers are not prepared to make necessary investments, APL, together with Aleut Alaska, will consider increasing their proposed investment to meet the needs of Western Alaska. APL does not believe that the way to respond to competition is to retreat from investment, but rather to increase investment, and become more efficient and more competitive. If existing carriers choose to exit the market, APL and Aleut Alaska will do everything they can to meet peak demand as well as to provide efficient regularly-scheduled service northbound and southbound. It is very difficult for APL to understand how existing carriers can "reduce their investment". APL is not aware of any substantial investment by existing carriers.[8] Many of the vessels were provided under the Vessel Exchange Program. Others simply involve the reallocation of tugs and barges from other markets to this market and do not represent new investments.[9] The only new investment that has taken place in Western Alaska in the last three years is the APL investment in the $16 million gantry crane and container yard at Dutch Harbor.

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[8] Sea Land built a pier at Dutch Harbor and then sold it to the City of Unalaska.

[9] Foss did this in order to perform the Adak contract.

Question 18. APL justifiably is proud of its rapid leg from Seattle to Dutch Harbor—a trip that takes just 3½ days. However, isn't it true that APL sails from Seattle to Dutch Harbor only twice a month? Thus, isn't it true that current service is more frequent than the service APL claims will improve the situation?

Answer. It is true that APL sails from Seattle to Dutch Harbor twice a month. Last year APL sailed once a week from Seattle to Dutch Harbor. That configuration of service is always available if demand warrants. However, a 3½ day transit time every 14 days provides service that is more frequent than any existing service. Sea Land has the ability to provide a 14-day service from Seattle to Dutch Harbor with transshipment at Kodiak to the Aleutian Developer. That service, however, is not a scheduled service.[10]

Question 19. Tote has asserted that "APL has not had enough refrigerated containers to meet its commitments. . . . Between mid-July and August, at the height of the fish season, it accepted less than one-third of the shipments tendered to it within the agreed time because of its shortage of refrigerated containers." How do you respond? Will APL have sufficient refrigerated containers and vessel space to serve the trip by itself should other carriers be forced to withdraw service to the region?

Answer. APL is puzzled by Tote's statement. APL had an agreement to tender to Tote available reefers for Tote's use northbound. Tote then carried salmon from the Kenai peninsula southbound to Seattle for transshipment via APL vessels to Japan. In 1980, 135 containers were utilized in this manner. In 1981, Tote had need of 300-500 such containers. APL made an economic decision to use its reefers in the California to Japan trade where it did not have to share revenues. Therefore, it did not provide Tote with the requested reefers. In the proposed service, APL would not be sharing revenues on reefer movements from Dutch Harbor to Seattle. Therefore, it would not have any incentive to divert reefers from a shared revenue area to a non-shared revenue situation as it did in the Tote example.

As explained in Question 16, APL is investing in up to 500 new reefers. Therefore, APL will have sufficient refrigerated container capacity to serve the trade by itself should other carriers be forced to withdraw service to the region. APL, however, does not believe that it will have sufficient capacity to meet future demands, and therefore, questions why any carrier would withdraw. In other words, APL has existing capacity to provide for the existing level of service, but it does not believe it has sufficient existing capacity to meet future demand. If there are no other carriers competing, APL would definitely consider adding additional capacity to meet future requirements of service.

Question 20. If APL's interest is to aid the area's fishery industries, why doesn't it simply carry more export product outbound to Japan?

Answer. It is true that Japan provides a substantial market for Alaska currently fish caught by both Japanese and Americans in the U.S. 200-mile zone. However, Alaska bottomfish which represent over 30 percent of all fish harvested in the entire U.S. zone, offer a tremendous opportunity for U.S. fishermen and processors to break into the U.S. frozen blocks and portions market (i.e., fish sticks and sandwich portions) which has been dominated by foreign imports since World War II. The U.S. fishery policy goal is to reduce these imports and the attendant harm to our balances of payments. More reliable and cheaper transportation from Dutch Harbor to Seattle would help achieve this goal.

Question 21. Tote asserts that: "It is harvesting and processing technology, coupled with lower cost foreign fishing operations, which inhibit the domestic ground fish industry, not lack of transportation capacity. Adding capacity during the winter, when there is already excess capacity, will not assist the ground fish industry. Furthermore, the primary market for Alaska ground fish is Japan, which APL can serve without legislation, since it is not a domestic trade." Why then does APL believes its service will stimulate the bottomfish industry?

Answer. Tote is correct in that development of bottomfish in Alaska at the very early stages has many uncertain factors which inhibit investment and expansion. Yet even if all other factors, such as competitive harvesting and processing costs, were favorable, the transportation system from Alaska, unlike anywhere else in the lower 48 States, is seen as a major constraint. A recent study of development constraints done for the Department of Commerce pointed this out succinctly (Earl Combs, 1978). The infrequent, high cost transportation service now available in Alaska's vast fishing regions compound an otherwise difficult development task presenting a chicken-and-egg problem. If the service were more regular, reliable, and cheaper, then the whole process of development (i.e., the reduction of risk) would be aided thereby.

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[10] *See, e.g.* the Sea Land schedule appearing in *Pacific Shipper*, Oct. 5, 1981, which does not list Dutch Harbor as a scheduled service.

As to exports to Japan, the same Commerce Department Study concluded:

"The U.S. domestic market for white-fleshed fish group has substantial size and is rapidly growing. Over 75 percent of this market is currently served by imported products. This market represents the short-term best opportunity for expanded utilization of U.S. resources at commercial scales."

Alaska bottomfish represents the best chance for substantial expansion of the U.S. fishing industry. APL believes that its service will stimulate the U.S. bottomfish industry because APL will be able to offer its services at a rate which will enable the U.S. bottomfish industry to compete with foreign sources. As pointed out in the Kramer report, the bottomfish industry is very sensitive to price. APL's efficient service could be undertaken at rates which would make the bottomfish industry more competitive.

Question 22. Has APL considered the costs of the customs duty that must be paid every time a container is shipped from use in foreign trade to domestic trade? I understand that it can cost $400 to $500 per container each time it is brought back into service in domestic trade.

Answer. APL does not agree that a customs duty must be paid and has received a customs interpretation supporting its position.

Question 23. If APL intends only to provide a service associated with AASC's feeder capacity, shouldn't the amendment be drafted more narrowly, rather than to permit carriage of any and all cargo?

Answer. Under the proposed joint service plan, AASC's feeder capacity will not be limited as to the type of cargo that AASC will carry. Therefore, it would not seem appropriate to draft the amendment more narrowly.

Question 24. Are there other U.S.-flag subsidized liner operators who also might take advantage of this proposed amendment?

Answer. There are other U.S.-flag subsidized liner operators who might take advantage of this proposed amendment. It is, however, unlikely that those subsidized liner operators would initiate a specific service utilizing the Great Circle route. It is, however, a possibility.

Question 25. What designs does APL have for further or expanded service to other areas of Alaska?

Answer. APL has no designs for further or expanded service using vessels receiving subsidy to other areas of Alaska. APL supported a proposal last year which would have provided for equality of treatment between Hawaii and Alaska. That proposal would have permitted service to other points in Alaska, although APL did not intend to initiate such service. Because of the confusion generated by the proposed legislation in the last Congress, APL agreed that legislation introduced in this Congress specifically identify the region to be served. S. 1682 limits such service to Unalaska Island (Dutch Harbor). That is the only port which APL plans to serve.

Senator GORTON. Because of the constraints of travel, one of the members of panel 4 has asked that that panel be heard next, and we will take the group out of order and hear from panel 4.

Mr. Gallant, Ms. Rose, Mr. Tillion, and Mr. Flynn.

Mr. Gallant you may start.

STATEMENT OF ALLAN GALLANT, PRESIDENT, ALASKA COMMERCIAL CO.

Mr. GALLANT. Good morning. My role here is as president of the Alaska Commercial Co., a limited view. We are the largest retailer in Dutch Harbor. We have been there 1½ years with a retail operation, general merchants, doing in the neighborhood of $4 million.

But I would like you to view my testimony not just as the Alaska Commercial Co., but representing all of the merchants in the area and dealing with the issues that face us.

I'm not going to stick to my testimony. It is a lot of pages, and I just hope you will read it, and I will summarize from it.

Senator GORTON. We will include your entire testimony.

Mr. Gallant. The problem, gentlemen is that as a merchant we are faced with an inefficient, costly, and unreliable transportation system, and it will deal with the Senator's question of retailing in that light. As a retailer faced with these problems, we therefore, then, structure a pricing structure. This is only one of our 14 stores in Alaska, so we deal with this problem of transportation all the time, and this is our most severe problem city.

Due to the inherent risks of doing business under those circumstances, our gross profit is structured so that it covers the risks of shipping milk, Senator, fresh milk from Seattle or Anchorage by air and having it never get to Dutch Harbor and having to pay the entire cost of the goods whether it got there in a salable condition or not, and same way goes for tomatoes, lettuce, and fresh meat.

So therefore, the system, the retail pricing structure covers that risk, to cover the cost due to the unreliable services of carrying excess inventory, so that the people of Dutch Harbor can have product when they want it, not when the boats and the planes get in there.

So you are carrying excess product to cover it. And then the additional problem of excess space that you have to pay for. The rent. We don't own our building. We pay rent. We pay rent for empty warehouses sometime, and then full warehouses, and not enough warehouses, with keeping it in trucks in the back of the store, so that it is there, so that when the ships don't make it through or the airplane doesn't, we have got product for the people.

So therefore, it is an inherently expensive way of doing business, and the customer is paying for it. There is no other way, because when it doesn't make it, we have to make a bottom line.

And the point of the matter, that based upon our study of this, we believe that the institution of this service could literally save the customers of a commercial company in the neighborhood of $350,000 to $400,000 a year in retail pricing. We believe we've got nearly an extra 10 or 11 percent that could be saved by reducing the freight cost and also being able to reduce our gross profit and still end up with the same bottom line, because we do not have to cover those losses and risks that we are doing today.

And I ask this group to really consider it. I don't want to get into the issues of subsidy and nonsubsidy. We represent the merchants in Dutch. The people of Dutch Harbor, Unalaska, and western Alaska will come out ahead. The economy will come out ahead, and we will be able to reflect savings to the consumers.

[The statement follows:]

STATEMENT OF ALLAN D. GALLANT, PRESIDENT, ALASKA COMMERCIAL CO.

Mr. Chairman and members of the committee, as the largest retailer ($4,000,000 a year) in Unalaska/Dutch Harbor, we are supporting this legislation in spite of the probability that there will be a slight deterioration in our working relationships with the carriers now established in this route and serving our other thirteen branches, but these carriers cannot in any way escape understanding our position. With regular sailings from Seattle weekly or every 8 or 10 days, 3½ days transit time to Dutch Harbor with the very best support facilities and service at both ends, this service is a natural for us. An added bonus would be lessening of our dependence upon Reeve-Aleutian Airways for certain commodities that they now almost exclusively carry for us from Anchorage. These are largely perishable items and due to the inherent nature of the goods, plus present lengthy transit by water from

Seattle make supply by air from Anchorage the only way to retain any shelf life for the merchandise. However, the times that these shipments have remained parked at Cold Bay airport awaiting furtherance by Reeves to Dutch Harbor, the delays exceed the 3½ days transit by American President Lines from Seattle. Add the prior transit time from Seattle to Anchorage (2½ to 3 days), and then the delay at Cold Bay and shelf life has eroded to a point where in instances there just isn't any. The only disadvantage that I can foresee would be in the rate structure that American President Lines lays out. Should they set up their rates, leaning towards full van loads with high weight minimums to qualify for volume rates, it will force us into juggling product mix on loading and lead time on ordering.

To compare with what American President Lines proposes, the transit time, frequency of sailings, support services and rates of carriers currently serving Dutch Harbor are as follows:

FOSS ALASKA LINES

Sailings from Seattle every three weeks as per their published schedule and delivery at Dutch Harbor 21/22 days after departure from Seattle. The cargo is transferred at Sitka, thence direct to Adak and calling into Dutch Harbor after Adak. The notorious weather in the Gulf and along the Aleutian Chain can easily extend this 21/22 days transit time. However, I believe that Foss Alaska is the most reliable for sailings and transit. They sail only every three weeks, but it is always every three weeks without fail.

They have excellent, modern Seattle facilities for both van loads and LTL shipments, discharge at the APL dock in Dutch Harbor and deliver full vans at destination. The transit time eliminates shipping of perishable items, but Foss Alaska is our regular carrier for full van loads of dry groceries. Their operations is all vans and the rates are structured accordingly, with emphasis on full vans at volume rates. The extended delivery time adds substantially to our cost of carrying inventory.

PACKER BOATS

This category is Western-Pioneer and Alaska Aleut Shipping Company. Their sailings from Seattle are very dependent upon the time of the year. In between fishing/crabbing seasons, the sailings from Seattle are quite frequent, but then dry up or can completely disappear due to heavy commitments to the processors and/or outright charter of their vessels. An example is Alaska Shipping who have had all of their equipment out on charter from around the 1st of September, and are not accepting freight until their October 16th sailing. On an average, both carriers take around 12 days transit time from Seattle to Dutch Harbor, which is dependent upon the weather and the number of ports of call, prior to Dutch Harbor.

Both carriers have small ships and are primarily LTL carriers but are gradually making a limited transition to containerization. Their Seattle installations are small and geared to handling small package shipments. Their vessels are registered as fishing boats and therefore, the freight has to be marked for and delivered to a fish processor at Dutch Harbor. Upon discharge of the freight at Dutch Harbor, it has to be picked up at the first opportunity by us from the processor's dock, which can make it awkward due to late or early hours and availability of personnel and equipment. Due to the fact that they are primarily LTL carriers, their tariffs are so set up accordingly, with some rates assessed on a "weight or measurement" whichever accrues the greater revenue basis.

SEA-LAND SERVICES

Their sailings from Seattle are also highly dependent upon the time of the year. Attached is a copy of their latest schedule which shows acceptance of freight and sailings for Dutch Harbor every seven days. But, off-season between fishing/crabbing this can space out to 12/15 days. You will also note that they do not note any E.T.A. for Dutch Harbor, only arrival at Kodiak. Cargo for Dutch Harbor is transferred at Kodiak to a small shuttle craft and delivery at Dutch Harbor is most unpredictable. In other words, Sea-Land will be right on schedule for dock delivery at Kodiak, but they will not commit themselves to any delivery date beyond Kodiak.

They have excellent, modern facilities at Seattle, and they have their own dock at Dutch Harbor and deliver full vans. Rates are competitive with Foss Alaska, but they, too, have slanted their rates towards full vans on volume rates, as they are a fully-containerized operation.

NORTHLAND SERVICES

Their service to Dutch Harbor is highly irregular as calls are made only when sufficient tonnage is offered to warrant the call and then usually only during fishing/crabbing seasons. We have not used them so I am not familiar with their service or transit time. However, due to the degree and nature of their participation in the Aleutian area, I would say that Dutch Harbor would be at the end of the line for the voyage and transit time could be anywhere in between 15 to 25 days.

Their Seattle installation is quite good, but have no idea where they discharge at Dutch Harbor and if they deliver vans. Rates are competitive with the other carriers, as they are a barge/van operation, and in consequence, their best rates offered would be on full van/volume basis.

AIR FREIGHT

Reeve Aleutian Airways is the only air carrier that flies the Dutch Harbor area with reasonable dependability and consistency. We rarely ship with them from Seattle, but ship considerable perishable and non-perishable items with them from Anchorage, via straight air freight or parcel post. At times, the physical aspect of their operation on the service, leaves much to be desired. Freight and parcel post is loaded at Anchorage into their larger aircraft and off-loaded at Cold Bay for furtherance in smaller airplanes that are better suited for the airstrips beyond Cold Bay. This is where the delays originate. Weather can keep the planes on the ground and as the airstrip at Dutch Harbor is not lighted, the planes can land and take off only during daylight hours. This becomes critical during winter months, as the shortened daylight hours (approx. 8:00 a.m. to 4:00 p.m.) combine with the remaining horrible flying weather, resulting in the freight remaining in Cold Bay for a lengthy stay.

A number of the perishable items (eggs, produce, milk) that are now shipped from Anchorage, would be shipped with American President Lines. With their projected 3½ days passage to Dutch Harbor, the goods would be in our store and on the shelf ready to sell 4 to 4½ days after departure from Seattle. In appearance, there is no gain or advantage in time, but, subtract the 2½ to 3 days running time to Anchorage, and then at Anchorage 1½ days for discharge, sorting and delivery of vans, bailing out vans upon delivery and then re-deliver our shipment to the airlines or post office leaves only 1/2 or 1 day's difference on overall shelf life or pull dates.

A glance at the attached sheet of sample rates shows the definite advantage in water rates which would be reflected in our retail prices to our customers. In addition to the better rates, lower retail prices of 11 to 13 percent could be established as assured delivery within 3½ to 4 days would cut down on losses now taken on perishables that are due to delay in delivery.

To summarize, by passing this amendment, frequency of sailings from Seattle will improve, and transit time and transportation costs will be dramatically reduced. This will allow the Alaska Commercial Company to provide higher quality products at lower prices to the people of rural Alaska.

ALASKA SAILING SCHEDULE

Booking prefix	Vessel/voyage	Sail Seattle	Arrive Anchorage	Arrive Kodiak	Kodiak/Cordova/Chain
58	NE/400N	Wednesday, Oct. 7.	Sunday, Oct. 11	Monday, Oct. 12.	
59	PH/395N	Saturday, Oct. 10.	Wednesday, Oct. 14.	Thursday, Oct. 15.	Kodiak/Chignik/King Cove/Sand Pt./Captain Bay/Unalaska/Dutch Harbor.
96	PT/436N	Wednesday, Oct. 14.	Sunday, Oct. 18	Monday, Oct. 19.	
97	NE/401/N	Saturday, Oct. 17.	Wednesday, Oct. 21.	Thursday, Oct. 22.	Kodiak/Cordova/Captain Bay/Dutch Harbor/Unalaska.
98	PH/396N	Wednesday, Oct. 21.	Sunday, Oct. 25	Monday, Oct. 26.	
99	PT/437N	Saturday, Oct. 24.	Wednesday, Oct. 28.	Thursday, Oct. 29.	Kodiak/Chignik/King Cove/Sand Pt./Captain Bay/Unalaska/Dutch Harbor.
52	NE/402N	Wednesday, Oct. 28.	Sunday, Nov. 1	Monday, Nov. 2	

ALASKA SAILING SCHEDULE—Continued

Booking prefix	Vessel/voyage	Sail Seattle	Arrive Anchorage	Arrive Kodiak	Kodiak/Cordova/Chain
53	PH/397N	Saturday, Oct. 31.	Wednesday, Nov. 4.	Thursday, Nov. 5.	Kodiak/Captain Bay/ Dutch Harbor/ Unalaska.

Note.—Commencing with the NE 401—Stow all chain and Cordova cargo for Kodiak discharge.

RATE SAMPLES

Commodity	Foss Alaska	Packer Boats	Sea-Land	Northland	Reeve Airways
Dry groceries:					
LTL	22.07 cwt	4.94 cwt	31.68 cwt	10.91 cwt	42.00 cwt.
Volume	10M, 10.95 cwt	No rate	10M, 10.86 cwt	20M, 8.74 cwt	38.00 cwt.
Temperature control:					
LTL	No rate	13.73 cwt	40.63 cwt	No rate	42.00 cwt.
Volume	16M, 23.20 cwt	No rate	10M, 32.06 cwt	30M, 16.42 cwt	38.00 cwt.
Eggs:					
LTL	No rate	2.51 C/F	40.63 cwt	No rate	42.00 cwt.
Volume	16M, 23.20 cwt	No rate	10M, 21.19 cwt	No rate	38.00 cwt.
Appliances:					
LTL	31.17 cwt	2.10 C/F	40.63 cwt	24.22 cwt	58.00 cwt.
Volume	8M, 27.75	No rate	No rate	20M, 15.20 cwt	48.30 cwt.
Furniture, set up:					
LTL	42.50 cwt	5.04 cwt	70.29 cwt	No rate	58.00 cwt.
Volume	8M, 27.75 cwt	2.52 C/F	No rate	4M, 30.02 cwt.	48.30 cwt.
Furniture, knocked down:					
LTL	31.17 cwt	5.04 cwt	36.18 cwt	No rate	58.00 cwt.
Volume	8M, 27.75 cwt	2.52 C/F	No rate	8M, 20.02 cwt	48.30 cwt.
Freight, Nos. (class 85):					
LTL	27.75 cwt	5.04 cwt	36.18 cwt	18.80 cwt	58.00 cwt.
Volume	No rate	2.52 C/F	No rate	10M, 17.55 cwt	48.30 cwt.

Notes.—Rates shown above are ocean charges for water carriers and Anchorage Airport to Dutch Harbor Airport for Reeve-Aleutian Airways. No terminal charges, pickup/delivery or accessorial charges are shown. Only the first weight break for volume rates is shown for the water carriers. There are no volume rates for the "Packer Boats" on the commodities listed.

[The following information was subsequently received for the record:]

Alaska Commercial Co.,
Kent, Wash., November 13, 1981.

Hon. Slade Gorton,
U.S. Senator,
Dirksen Building, Washington, D.C.

Dear Senator Gorton: My testimony three weeks ago in front of the committee in support of S. 1682, was an enjoyable and inspiring session. It was my first experience to see this level of democracy at work, and it confirmed my confidence in the ability of government to respond to the needs of the governed.

I want to take this opportunity to clearly restate my position that improved timely service to Dutch Harbor is critical to the growth of this rural area of Alaska.

The inability to get efficient, quick and reasonable priced shipping services, forces an economic burden upon us and all of the merchants of the area which we must in turn reflect in our prices to the consumers.

I ask you all to try and understand our burden and hope that you can see your way clear to change the law so that the people can buy higher quality products at substantially lower prices.

We need reliable, inexpensive, regular 3½ day service from Seattle to enable us to better serve the people of the Aleutians. As we see it, amendments to the Merchant Marine Act of 1936 as called for by S. 1682, is the answer.

Sincerely,

Allan D. Gallant,
President.

Senator **GORTON**. Ms. Rose.

STATEMENT OF FRAN ROSE, CITY MANAGER, AKUTAN, ALASKA, AND VICE CHAIRMAN, COMMITTEE FOR BETTER ALASKA TRANSPORTATION

Ms. **ROSE**. Mr. Chairman, members of the committee, I'm the city manager of the city of Akutan, which is a city—an island in the Aleutian chain. I'm under a contract from the city to represent their interests in Anchorage and Juneau with the contractors and with the State and Federal Government.

One of the reasons that I am in Anchorage rather than in Akutan working is that we have such a poor transportation and communications systems out there that it is literally impossible for us to be in touch with the rest of the State—be in touch with the State government unless you are in Anchorage.

The city of Akutan is approximately 40 miles northwest of Dutch Harbor. It is a very small place. It is on an island—on a volcanic island in very rugged country. There are approximately 70 people in Akutan, all of them Aleut. However, in the last few years the harbor in Akutan has developed into one of the primary fish processing areas in the State.

In 1980, more than 40 percent of the king crab processed in the State was processed in Akutan. So that this city of 70 people all of a sudden finds itself with perhaps 1,000 to 1,500 people out in the bay and between 9 and 12 processing ships working out there, so that the social and economic impact the last few years has been tremendous.

Akutan has no scheduled carrier service of any kind. There is a line that—they work on a charter basis and so that the store in Akutan receives its goods when the charter comes into the fish processor. There is no scheduled airline service. We don't have a landing field. There probably will never be a landing field in Akutan because of the terrain, and so air transportation or air freight service is only on a very, very limited emergency basis, what you can get into, a goose, which isn't very much.

In the next year to year and a half, the people in Akutan will be seeing a great deal of development. Many of the things that they have needed for so many years will come about. They are going to be getting 17 new homes under the Aleutian Housing Authority. They will be getting an improved water system, sewer system, finally getting an alternating current electricity system.

The Akutan Corp. is putting in an office, a hotel complex. There is a clinic that is going to be built. There is a possibility of a new school in Akutan, which, within the next year to year and a half, plus the commercial interest—you saw the Trident plant that is being developed in the bay. And the city of Akutan wishes to possibly go into a commercial dock, a fish processing venture, a number of these things.

And in order for the people in Akutan to get these projects, to get them underway, everything must be shipped in. And for these projects to begin to develop, to be done on a timely cost-efficient basis, our big problem will be if the materials are not received on time. Then we have cost overruns, and in many cases will not be able to complete the projects because we would not have enough money to stand the cost overruns.

So there are a lot of things happening in Akutan Bay, and there is a need for more freight service, plain and simple. And I believe that we are seeing, finally, a situation where the Aleut people can participate in their own destiny, in some sound basic economic ventures. And they need a better freight system to be able to do this.

Thank you.

One other thing, I would like to submit into the record a group of letters of broad support for the Aleut/APL venture that were sent to the Committee for Better Transportation.[1]

Senator GORTON. Thank you. They will be included.

[The statement follows:]

STATEMENT OF FRANCES H. ROSE, ADMINISTRATOR, CITY OF AKUTAN

Members of the Senate, my name is Frances Rose. I am the Administrator of the City of Akutan, a second class city incorporated under the laws of the State of Alaska. I am under contract to the City to manage their governmental affairs and represent their interests to the State administration, before the legislature and to other entities, both public and private. Poor transportation service and inadequate communication systems make it necessary for me to have my office in Anchorage rather than in Akutan.

The City of Akutan is located 40 miles North-west of Unalaska in the Aleutian Islands. Akutan is accessible only by air and water. There is no landing field in Akutan and passenger service is limited to the use of amphibious aircraft which is slow, costly, and inadequate for almost all but emergency freight service. Prospects of constructing an air field are not good due to the rugged terrain on the island. Therefore, air freight service will probably never be a viable alternative.

Akutan is an Aleut community of 70 people. For the past few years, from September through May during the crab seasons, as many as 1000 to 1500 people will come to Akutan to work on the seafood processing ships operating in the harbor.

This fairly recent increase in processing activity in Akutan Harbor has had tremendous social and economic impact. Within the next year, the people of Akutan will finally be able to get some of the things they have needed for so long. 17 new homes will be built in Akutan; a new sewer, water, and electric system will be installed. A much needed clinic is on the drawing board and a more efficient telephone system is being completed. The Akutan Corporation will begin construction on an office/hotel building and there is even the possibility of the construction of a new school. The City of Akutan is also conducting an engineering study for a dock and industrial complex at the Head of the Bay to bring together local government, the Akutan Corporation and private seafood firms in a large economic venture to provide a lasting stable economic basis for the people of Akutan.

All of these projects require the importation of large quantities of material from out of state. Akutan must be able to count on dependably scheduled freight service at the best possible rate in order to prevent cost overruns and delays on these projects. Prsently the people of Akutan must compete with the seafood industry for the shipment of food and household goods. When OCS leasing takes place in Western Alaska, available freight service to the rural people will be even more limited. Right now most carriers are under charter to seafood processors for the king crab season. Food orders for the local store in Akutan must wait until the season is over or charters have been released.

The people of Akutan would greatly benefit from improved freight service. They support the proposal by APL and AASC to provide service to Western Alaska and the Aleutian Islands.

They urge the U.S. Senate to act favorable this session on S.1682 to amend the Merchant Marine Act to allow linehaul service between Seattle Dutch Harbor by APL.

For too long now the Aleut people have been at the mercy of economic forces which they could not control. They may now be able to change this with the new economic prospects at hand. This won't happen unless they can have the dependable commercial link with the "outside" world. Hawaii has regular commercial service from the mainland; so does Puerto Rico! Why can't Western Alaska? Akutan is further west from continental U.S. than Hawaii, yet regularly scheduled air and marine transportation is taken for granted by Hawaii, and Puerto Rico.

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[1] The material referred to has been retained in the committee files.

Some of the larger processors have been willing to take an active role in supporting S. 1682. However, I can understand the reluctance of other processors to "rock the boat" when the only boat presently available to them is operated, for example, by Western Pioneer. I also understand a number of Akutan processors' outstanding charters have obligations which the processors will want to negotiate because of the disaster in the king crab harvest.

Given the additional building projects and increased economic activity in Akutan, I believe there will be plenty of business for another carrier. At the present time there is no scheduled commission carrier service to Akutan. The people of Akutan, Aleutian Chain and Western Alaska need and deserve better. S. 1682 will at least give us an equal opportunity under the law for improving our transportation system.

Senator **Gorton**. Mr. Tillion.

STATEMENT OF CLEM TILLION, FISHERIES CONSULTANT, ANCHORAGE, ALASKA

Mr. **Tillion**. First, let me apologize for the spelling of your name and many other mistakes. The letter was dictated over the telephone, and somebody made a few mistakes and we didn't have time to correct them. The same on the graphs, they were telexed from the National Marine Fisheries Service in Juneau.

I am pleased to see the president of the Alaska State Senate sitting in the gallery.

This is an interesting item. I will get right to it.

Senator Gorton, members of the subcommitte, my name is Clem Tillion. I am recently retired as president of the Alaska State Senate and am presently chairman of the North Pacific Fisheries Management Council. In January, I will assume the position of director of International Fisheries and External Affairs in the office of the Governor of Alaska. But I wish it understood at this time that I come before you as an individual, not in any official capacity.

I at this time wish to support the proposal now before you to allow American President Lines the waiver to deliver cargo from Seattle to Dutch Harbor. I also wish to expand this to cover Kodiak and Sand Point.

At the present time the tariff covering freight movements within Alaska are such that to move a van from Kodiak to Dutch Harbor, a distance of under 800 miles, costs more than to send the same van 1,600 miles southeast to Seattle plus the cost of an 1,800-mile return trip to Dutch Harbor, not to mention the time lost.

For those of us in Alaska to reach our neighbor for something like an anchor that's needed desperately, other than export, that means you have to send it all the way to Seattle and all the way back. You usually end up flying it. The last one—the reason I think of an anchor is I lost one on one of my vessels in the Bering Sea and the freight was $800 for a $250 anchor.

Prior to the 1964 earthquake, regular service to the ports within Alaska was not only possible but fairly reasonable. When the mail moved by boat instead of air, we received regular freight from mainland Alaska out the Aleutian chain as far as Nicolski. Today most Alaska towns not connected to a road or ferry line are more isolated than they were back in territorial days when our exports and imports were a fraction of today's and our population was a quarter of what it is today.

I'll enclose some graphs of the National Marine Fisheries Service showing the present and potential outlook of the fisheries predominantly of western Alaska.

Alaska accounts for 91 percent of all the total allowable foreign allocation made by our State Department. The 36 vessels engaged in joint venture have harvested over 100,000 metric tons of ground fish, or an amount larger than all the wet fish landing of the 450 vessels trawling off of California, Washington, and Oregon combined.

I admit this doesn't loom large when compared to the 1 million metric tons of pollock alone that are allocated to Japan, but in view of the reduced Bering catch of king crab expected this season and the need of one of America's most modern fleet to expand into other fisheries to keep from going under, the need for faster and more efficient service becomes more apparent.

The stocks of cod are at an all-time high, but due to their lower market price, as compared to crab, it will take high volume, long season to make vessel and gear payments.

I am not trying to tell you that this large volume will be shipped by U.S. carrier through U.S. ports in the lower 48, but some of it will be, and to support the necessary requirement of this fleet which will be operating at almost the end of the Earth will most certainly increase.

When you add to this the support needed by the U.S. oil industry if even a small part of the proposed Bering Sea oil leases go through, it just seems wrong to force an American-built U.S.-flag vessel to come all the way from Seattle to Dutch Harbor with from 40 to 60 empty vans to pick up cargo from western Alaska to us who live up there.

I understand the argument between subsidized carriers and nonsubsidized, but that can be considered in the context of whether you wish a domestic shipbuilding industry or not.

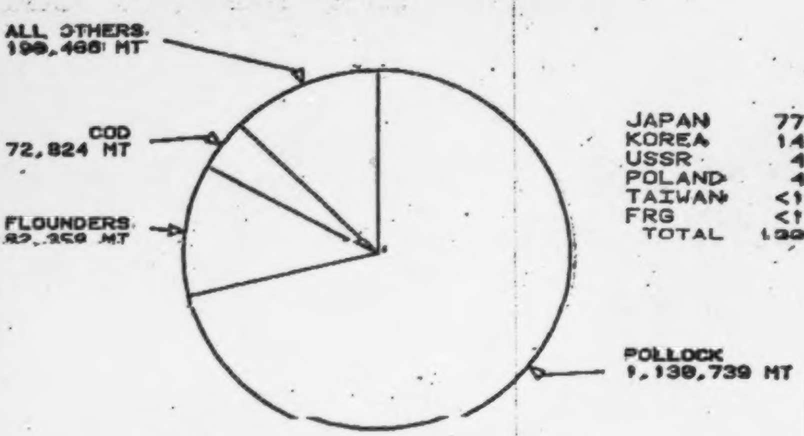
For those who live in the 48 contiguous States there are alternate means of transportation. But for the island of western Alaska, there is only the sea.

Would APL give up their subsidy? I would ask the same of Sealand. Would they give up their foreign-built bottoms? They get a subsidy by being able to carry on a vessel built at from a third to 50 percent less in a foreign port.

Thank you, sir.

[The charts follow:]

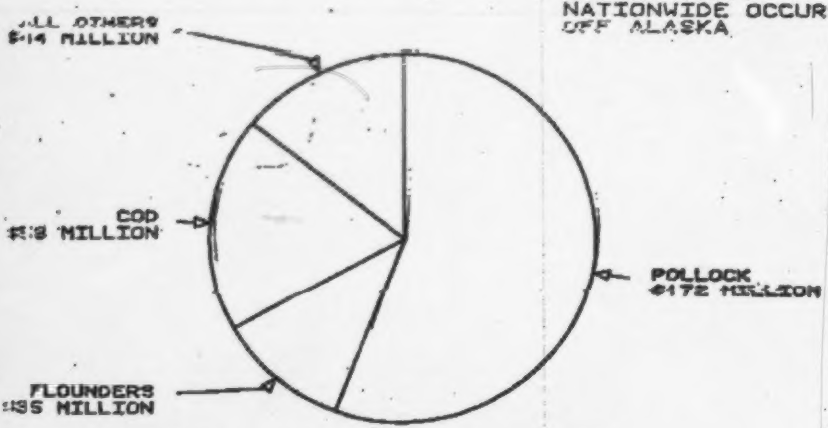
STATUS OF MAJOR ALASKAN FISHERIES
MARINE COMMERCIAL: FOREIGN



JAPAN	77%%
KOREA	14%
USSR	4%
POLAND	4%
TAIWAN	<1%
FRG	<1%
TOTAL	100%

1980 CATCH: 1,511,583 MT

91% OF TALFF
NATIONWIDE OCCURS
OFF ALASKA



1980 VALUE: $309 MILLION

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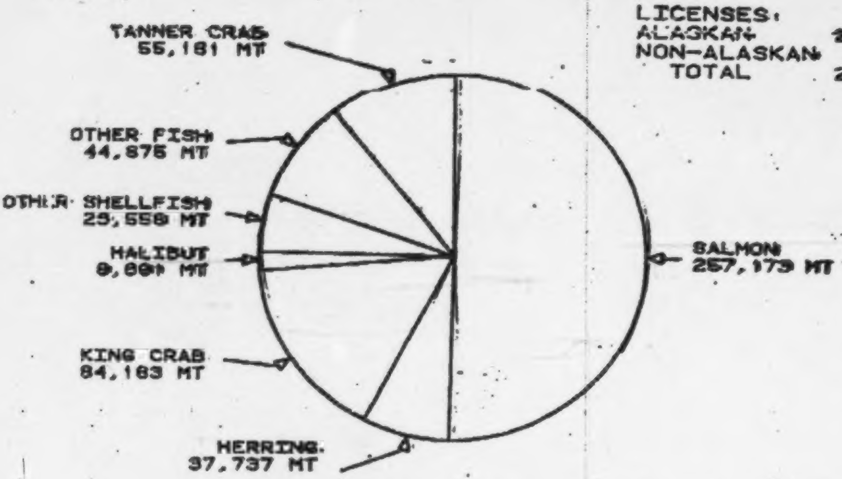
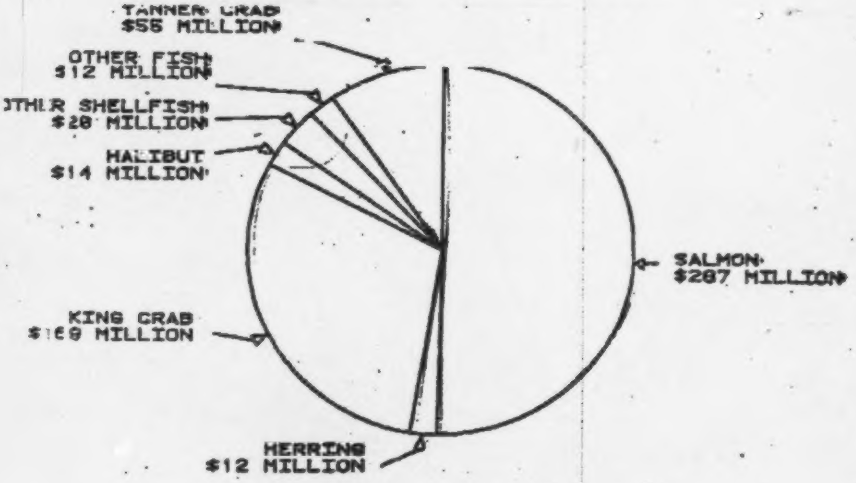
STATUS OF MAJOR ALASKAN FISHERIES
MARINE COMMERCIAL: DOMESTIC

LICENSES:
ALASKAN 23,000
NON-ALASKAN 5,000
TOTAL 28,000



1980 CATCH: 514,300 MT



1980 VALUE: $569 MILLION

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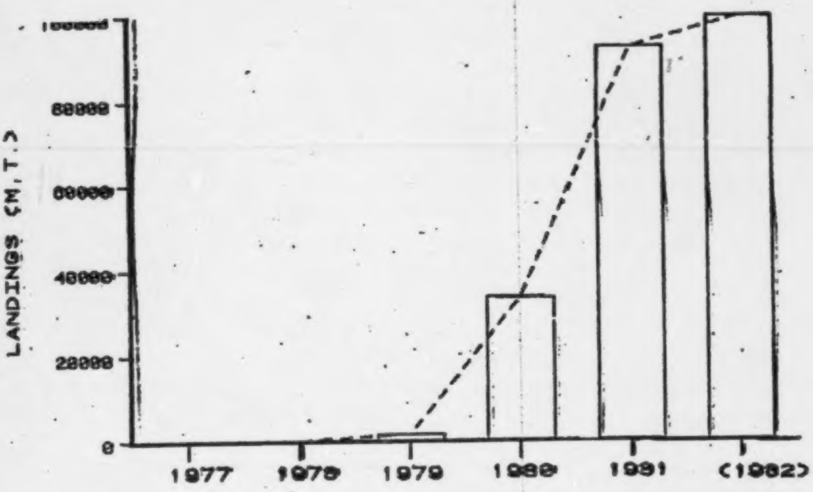
STATUS OF MAJOR ALASKAN FISHERIES
MARINE COMMERCIAL: JOINT VENTURES



S. KOREA	1	1	1	1	1-3
SOVIET UNION		1	1	1	1
W. GERMANY				1	1
POLAND				1	1
JAPAN				2	2
TOTAL	1	2	2	6	6-8
NUMBER OF U.S. VESSELS	4	4	22	23	(50)

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Senator GORTON. Thank you very much.
Mr. Flynn.

STATEMENT OF DAN FLYNN, UNITED FISHERMEN OF ALASKA

Mr. FLYNN. Mr. Chairman, members of the committee, my name is Dan Flynn, and I am a commercial fisherman from Anchorage, Alaska. I am testifying in behalf of the United Fishermen of Alaska in support of an amendment to the Merchant Marine Act to allow American President Lines to engage in domestic freight service to Alaska.

As an umbrella group for 18 local fishermen's associations and another 1,100 individual fishermen, the United Fishermen of Alaska is the largest fishermen's group in the country. Since the UFA is comprised of fishermen who harvest the waters from Ketchikan to Kodiak to Kotzebue, we are acutely aware of the role transportation plays in the development of Alaska's fisheries.

The value of Alaska fisheries now controlled by Americans is double that of any other State, and the offshore fisheries still dominated by fleets of foreign factory ships represents one of the Nation's biggest renewable resource potentials. The single biggest factor inhibiting the expansion into the offshore fisheries probably is the high cost and inadequacy of transportation along Alaska's, 39,000 miles of coastline.

The profit margins are very thin in the high-volume, low-value groundfish fisheries. The high cost of transporting finished products to market and hauling supplies into the isolated coastal areas of Alaska make groundfish uneconomical.

The only whitefish fisheries in Alaska involving Americans that have met with any degree of success are the sablefish longline fishery off southeast Alaska and joint ventures in the Bering Sea between foreign factory ships and U.S. trawlers. Southeast Alaska has the best transportation services of any coastal area in the State.

The shore plants that have tried to process groundfish in Alaska all have been unsuccessful, primarily because transportation and operating costs priced their products out of the marketplace.

Some 95 percent of the commercial fishing vessels in Alaska are less than 60 feet long. The UFA represents these small boat fishermen. Our interest in improving transportation services to coastal Alaska is very straightforward: Small boat fishermen need short plants processing groundfish if we are to realize any of the benefits.

But the promise of bottom fish development is not the only reason we need better transportation services to coastal Alaska. The UFA is convinced that Alaska is realizing only a fraction of the potential value of its salmon, crab, halibut, shrimp, and herring fisheries. The viability of value-added processing operations hinges on improving transportation to coastal areas.

Nowhere is the lack of transportation infrastructure more apparent than western Alaska. It also holds the greatest untapped potential in the fisheries of anyplace in the United States.

A good example of how inadequate transportation has hamstrung fisheries development in western Alaska is the Norton Sound pink salmon fishery. A record 5 million pink salmon returned to Norton Sound in 1980, but only 200,000 pinks were harvested because buyers could not afford to venture north of Bristol Bay to handle the lower value species of salmon.

The huge escapement of pink salmon in 1980 is expected to result in an even larger run to Norton Sound next summer. Chances are the resource will go largely untouched again, though, as transportation to Norton Sound has improved little in the past 2 years.

The salmon and herring fisheries of western Alaska are replete with these kinds of examples. Incomes of area residents fall far below Federal poverty guidelines in most of western Alaska.

Improved transportation services also could help fishermen in their efforts to develop new, smaller scale markets for their catches. The only regular transportation links to many of the isolated coastal communities of Alaska exist only to serve big processing companies. If regular, lower cost transportation services are developed, fishermen could finally have access to promising markets for smaller volumes of products.

While it is clear that the expanded service now contemplated by American President Lines should the amendment be approved would not solve all Alaska's transportation problems, the UFA believes it is a significant initial step. It makes no sense whatsoever for American President Lines to send empty vessels past western Alaska when the freight service is so desperately needed.

Why should Hawaii, Guam, and Puerto Rico be allowed exemptions from the U.S.-subsidized international carrier provisions and not Alaska? The UFA believes that it is unfair to treat Alaska differently than other noncontiguous areas of the United States.

The UFA urges you to grant an exemption for Alaska. Alaska's coastal communities deserve the same breaks that have been given to other domestic ports in the noncontiguous United States.

Senator GORTON. Thank you very much to each of you.

In view of the very difficult time constraints under which we are operating, the questions which I have to each of you will be submitted in writing.

We hope you will help us by answering these questions in as detailed a fashion as possible.

Senator Stevens.

Senator STEVENS. I will try to follow the chairman's suggestion, too.

But I think, Mr. Chairman, we're going to lose a little of the impact to the committee if the other people don't realize the questions we are asking some of these people, so I hope you will bear with me.

I am concerned about two things. And first, let me address a question to the representative of the Commercial Co.

Your freight today moves from—the water freight, that is, moves from Seattle to either Anchorage or Kodiak and then to Dutch Harbor; is that right?

Mr. GALLANT. Basically, with the other competitors there, Foss, some of the packer boats, et cetera—that is how the majority of our goods gets up there is by sea.

Senator STEVENS. And I am told that the timeframe now on an average exceeds 2 weeks.

Mr. GALLANT. Absolutely, unequivocally.

Senator STEVENS. Now, Mr. Tillion mentioned the backhaul problem, or the problem of freight from Kodiak to Dutch Harbor. As I understood his comment, his comment was that some of the freight for Dutch Harbor actually goes from Kodiak to Seattle and then back to Dutch Harbor; is that correct? Do you have any of that?

Mr. GALLANT. I don't have that knowledge, Senator.

Senator STEVENS. Let me move over on that then. Is that correct?

Mr. TILLION. Usually you just don't buy Alaskan. It's cheaper to locate it in Seattle. I couldn't get an anchor from my home to Dutch Harbor. I would just phone Seattle Marine and have a new one air freighted out, because there was no way to get my cargo in Alaska. That hasn't existed since the 1964 earthquake, when Alaska Steam lost its dock.

Senator STEVENS. The anchor you had in your home in South Central could not move under existing freight circumstance without going to Seattle and coming back, so you chose to buy a new one in Seattle and then ship it up by air?

Mr. TILLION. That's correct.

Mr. GALLANT. Senator, in further response, the only way we can get anything out of Anchorage to Dutch is by air. And that relates to the other Senator's question of that milk—that milk that you see, that price, is air freight. It is not compared to surface, because you can't ship milk surface because there is no way of getting it there under 2 weeks at the very best, closer to 3 weeks regular. So you can't put milk and produce—it has got to come out by air out of Anchorage if the people in Dutch Harbor and the Aleutians are going to have anything like fresh produce.

Mr. TILLION. We can do business with Kodiak if it wasn't for the Alaska State Ferry System. That is the only thing that gives many of our island communities any service whatsoever.

Senator STEVENS. Well, maybe Mr. Chairman, we had better reinstate the mail service by surface vessel and see what happens.

Mr. GALLANT. It would take the pressure off of Dutch Harbor.

Mr. TILLION. If I might add, sir, when they had that mail service, I used to get mutton from Nicolski in exchange for shrimp from—from anywhere, just say, in exchange for shrimp.

Senator STEVENS. That's the other question, again, the impact of this proposal of APL's would be that the Aleutian vessels of Aleutian Alaska would operate to Anchorage to the other areas of the west coast, connecting with the APL line; is that your understanding? I mean your anchor could come in from Anchorage under this proposal?

Mr. TILLION. You would have to run it by the Alaska State Ferry System to Kodiak, but APL's proposal is only to go to Dutch. I would hope to see an expansion.

Senator STEVENS. But the interconnection is from Aleut, Alaska, into Dutch?

Mr. TILLION. Yes.

Senator STEVENS. Thank you.

Senator GORTON. Senator Inouye.

Senator INOUYE. Mr. Chairman, I would like to submit my questions also.

Just a short statement. As one who represents an insular State, I am very sympathetic with the problems of Alaska. Ninety-eight percent of all the consumer goods coming into the State of Hawaii have to be carried by ships. The price of bread in Honolulu is about double the price of bread in Los Angeles.

And as your witness here has indicated, I am well aware that it is not the cost of freight. There are other costs involved. But I wanted the record to be clear, because the impression would have been left that this was the cost of freight.

I also wanted the record to show that although we do have the four exceptions to the Merchant Marine Act, there is no subsidized ship carrying domestic cargo to Puerto Rico or, for that matter, to Honolulu. There is almost no cargo on the U.S. Lines.

My only concern is that this may cause some havoc to the Merchant Marine Act of 1936, as amended. I am going to do my best to see if some sort of solution cannot come about so that we can adequately serve the people of that island chain. For that matter, we still have an island in Hawaii where there is no shipping whatsoever. And if you're talking about cost, I can assure you that a gallon of milk on that island is much more costly than a gallon of milk in Dutch Harbor.

We all have our problems, and Senator Stevens and I every evening when we watch television, we get irritated. There are ads in there that say you can call from here to anywhere in the United States for *x* number of dollars, except Alaska and Hawaii.

We want to get included in this Nation of 50 States. So I sympathize with you. But at the same time, as one who represents a State that has to depend almost totally upon the merchant marine of the United States, I am certain you can understand my concern for the maintenance of the health of the system. If worse comes to worse, you have some alternative or transportation. We don't have any trains from San Francisco to Honolulu.

Senator **STEVENS**. We don't have any from the south 48 to Alaska either.

Senator **INOUYE**. We are real prisoners. I'm on your side, Ted, and I'm going to do my best to help you.

But I have to take a hard look at it.

Senator **GORTON**. We would like to thank this panel very much for its testimony. We will now proceed to panel No. 2, Messrs. Snavely, Garside, Haagen, Trout, and McMillan.

You may proceed, Mr. Snavely. And please understand, with our apologies, that this panel also has just 15 minutes.

STATEMENT OF CARL SNAVELY, CONSULTANT FOR NON-SUBSIDIZED VESSEL CARRIERS

Mr. **SNAVELY**. Mr. Chairman, my name is Carl Snavely. I am the president of Snavely, King & Associates and the principal author of my firm's report to the Non-Subsidized Vessel Carriers' Legislative Action Group, which examined and evaluated the joint proposal of the American President Lines and the Aleut Alaska Shipping Co.

I would like to submit for the record a copy of that report, plus the written statement which was a summary of that report.

Senator **GORTON**. That will be included in the record.[1]

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[1] The report referred to has been retained in the committee files.

Mr. **Snavely**. I would at this time like to introduce the other members of the panel who would follow me in this order, Mr. Gordon McMillan, president of Alaska Coastal Lines, to my left; Mr. Everett Trout, vice president of operations of Totem Express, to my right; Mr. Thomas Garside, vice president of Crowley Marine Corp., to my immediate right; and Mr. James Haagen, president of Northland Services, Inc., to my far right.

In light of the committee's time constraints, I will limit my remarks to a brief summary of the conclusions which I reached in the report and which I think are, perhaps, most pertinent to the issues immediately before this committee.

First and foremost, I think the committee must recognize that western Alaska has received and will continue to receive the benefit of the growth and development of a highly competitive, private enterprise and dedicated water carrier transportation service, which, while not perfect, has been and continues to be responsive to the needs of the people and the industries of western Alaska.

Second, taken at face value, the APL/Aleut Alaska proposal will not and cannot produce the benefits to the people or the industries of western Alaska which its proponents claim. This is because APL has a limited vessel and refrigerator container capacity and because APL will and must, of necessity, serve the western Alaska area as a secondary service on a space-available basis.

Indeed, the whole concept of incremental pricing is bottomed on a space-available secondary service.

I would add that, while we hear much about the amount and speed of service, they are proposing a 14-day service between Seattle and Dutch Harbor—it will be 14 days between calls, the focus of the feeder service will be on the same ports that receive the bulk of the service today, and the service will not increase the frequency of calls at Dutch Harbor.

Lastly, I would say that if the APL/Aleut proposal does succeed and APL puts additional capacity in the trade, of necessity the economics of the situation are that the existing nonsubsidized carriers would have to withdraw a like amount of capacity from that trade and therefore, in the long run, there will be no increase in capacity due to the APL/Aleut proposal.

[The statement follows:]

STATEMENT OF CARL M. SNAVELY, JR.

My name is Carl M. Snavely, Jr. I am the President of Snavely, King, & Associates, Inc.—an economic consulting firm whose offices are located at 1747 Pennsylvania Avenue, N.W., Washington, D.C.

I have over 24 years of experience in all phases of transportation and regulatory economics including pricing, costing, and financial analysis. My experience as a consultant includes a wide variety of studies in the fields of transportation and regulatory economics and distribution. A detailed statement of my qualifications is attached hereto.

PURPOSE OF THIS TESTIMONY

I have been retained by the Non-Subsidized Vessel Carriers' Legislative Action Group (non-subsidized carriers) to examine and evaluate the joint proposal of the American President Lines, Ltd. and the Aleut Alaska Shipping Company to establish a line haul/feeder water carrier service between Seattle, Washington and the Western Alaska trade area. I have been authorized by the non-subsidized carriers to present this testimony which summarizes the findings of my investigation into this matter. The detailed analyses underlying these findings are contained in the Report, An Analysis and Evaluation of the Joint Service Proposal of APL and Aleut Alaska for the Western Trade which accompanies my testimony.

FINDINGS OF THE ANALYSIS

The conclusions contained in this testimony were determined after carefully examining the present service provided by the non-subsidized carriers, proposed APL/Aleut Alaska Service, and the effect of APL's operating and construction differential subsidies on the joint service proposal.

I. The adequacy of existing service: The capacity issue

The primary dissatisfaction with the present transportation service which is cited in support of the APL/Aleut Alaska proposal is the periodic shortage of water transportation service and capacity during the peaks of the king crab and other fish harvesting seasons. The intensive fishing which occurs during these periods places tremendous burdens on the existing processing plants and storage facilities. The processors look to an increase in transportation capacity to relieve these pressures rather than the construction of additional storage facilities. The water carriers operating in this trade have provided additional service and capacity to the point where it is economically feasible to do so.

A. The scope of existing service

The Western Alaska trade area receives water carrier freight service that accurately reflects market conditions in that area, except that Aleut Alaska rejected offers from two carriers, Foss Alaska Line and Sea-Land Service, to establish an improved joint line service.

Eight non-subsidized carriers serve the Western Alaska trade area: Western Pioneer, Foss Alaska Line, Sea-Land Service, Salmon Carriers, PAL-West, South East Alaskan Barge Lines and Northland Services, Inc. and Aleut Alaska. These carriers made 201 voyages to the Western Alaskan trade area in 1980. The seven non-subsidized carriers (excluding Aleut Alaska) made 608 calls at 37 different ports in 1980—about 50 percent of the calls were made in the four-month period May through August. The seven non-subsidized carriers had an overall capacity utilization of 68 percent and had excess capacity of 15 percent or more in each of the 12 months in the year.

The Western Alaska trade area is comprised of widely disbursed and small communities, has a total demand that is relatively small, is directionally imbalanced with significant seasonal variations, and requires cargo to be transported relatively long distances in vessels of fixed capacity and relatively fixed costs.

B. The peak period problem

The provision of additional containers and vessels, which will be idle most of the year, to meet peak capacity demands may only be accomplished at a prohibitive cost. It is for this very reason that the processors are reluctant to invest in additional storage facilities and that APL will be reluctant to invest in additional refrigerated containers. Simply put, the crux of the problem is that too much cargo becomes available for lifting in too short a time period in a trade that otherwise is characterized by a low utilization of its capacity. While the problem may be temporarily alleviated by the introduction of new capacity, it will not be permanently solved.

The APL/Aleut Alaska proposal will not provide a solution to this problem for several reasons. APL has proposed and, indeed, can provide only a space-available secondary service to Western Alaska in conjunction with its primary international service. APL has not, and realistically cannot, commit a fixed amount of vessel capacity or refrigerated container capacity to the Western Alaska trade during the peak fishing seasons.

APL is faced with the same economics of utilization as are the non-subsidized carriers and the fish processors and, therefore, cannot rationally justify investments in containers or vessels for utilization only during the peak fishing season. Nor can APL obtain additional vessels and/or refrigerated containers whih are not required in other trades in which it participates.

The demand for capacity to move export fish and fish products from Alaska to the Far East coincides with the demand for capacity to move domestic fish and fish products from Alaska to Seattle. All indications are that APL barely has sufficient refrigerated capacity to handle the needs of its international trade. It is highly unlikely that APL will be able to provide any significant additional container capacity for the southbound domestic movement of fish and fish products during the peak season.

Further, the entrance of APL into the domestic Alaskan trade, could by diverting traffic from the non-subsidized carriers, force the non-subsidized carriers into a position whereby they have to reduce their participation in and the capacity they supply to the trade because of reductions in the amount of cargo that will be available to them in the off-peak season. Once they reduce their capacity, it is highly unlikely that the non-subsidized carriers will return this capacity to the trade for seasonal use during the fishing seasons.

The answer to the capacity problem of the fishing industry does not lie in either the APL/Aleut Alaska proposal, or in the purchase of additional transportation and/or storage capacity by the non-subsidized carriers, or the fish processors. It would appear that the most efficient and economical solution is to attempt to "stretch out" the fishing seasons and thereby reduce the peak capacity requirements.

II. The APL proposal

The critical element to the viability of the proposed service and to the financial survival of Aleut Alaska is the line-haul operation that will be provided by APL. But APL has made no commitment to dedicate a portion of its refrigerated container or its vessel capacity to the domestic trade. APL intends to perform the line-haul operation as a secondary service that will be provided on a space available basis. This causes serious doubts as to APL's ability or willingness to provide the vessel and container capacity required to make the proposed service viable.

There is no public data available which permits an independent evaluation of the capacity that APL has, will have, or could make available to the Western Alaska trade. However, all indications are that it is and will be small. To the extent that APL does have additional capacity, it appears to be predominantly in the northbound direction. This capacity may not be sufficient to underwrite the costs of the Aleut Alaska feeder service and will not alleviate the periodic capacity problems faced by the Alaska fishing industry.

Under the proposal, Aleut Alaska will operate out of Dutch Harbor and will be dependent upon APL for its traffic and its financial viability.

Contrary to its claims, Aleut Alaska will not provide more frequent calls or year-round service to the remote communities of Western Alaska. Rather, Aleut Alaska will provide scheduled service to the major ports of the fishing industries. These ports receive frequent service from the non-subsidized carriers and generate the traffic upon which the non-subsidized carriers depend for the bulk of their revenue.

III. The effect of APL's operating and construction differential subsidies on the joint service proposal

If the APL/Aleut Alaska proposal is approved and is successful, the ability of the non-subsidized carriers to continue to provide the present level of service will be seriously impaired.

The APL/Aleut Alaska service will not produce the level of benefits to the citizens of Alaska which its proponents allege. Indeed, it can only produce benefits if the service captures a significant portion of the traffic in the Western Alaska trade area. If the service does succeed, the resultant benefits whatever they may be, will be obtained at the expense of the non-subsidized carriers and the highly competitive transportation environment in which they operate.

The service proposed by APL/Aleut Alaska is made possible by the past construction and operating differential subsidies received by APL and is dependent upon the continuation of those subsidies in the future.

The mere repayment of a portion of its operating differential subsidy by APL will not place the proposed service on an equal competitive footing with the nonsubsidized carriers. The real benefit of APL's subsidies to its participating in the domestic trade is not some increment allocated to domestic tonnage but rather the fact that its subsidized participation in the foreign trade between Seattle and the Far East via Dutch Harbor allows it to enter the domestic trade between Seattle and Dutch Harbor at almost no additional cost.

CONCLUSION

When all factors are taken into consideration, the private enterprise system is providing a competitively priced transportation service to the Western Alaska trade area responsive to the demand for service in that area. There is no justification for the Federal Government to permit a subsidized carrier to use the competitive advantages created by its subsidy in competition with the non-subsidized carriers who serve the area.

STATEMENT OF GORDON McMILLAN, PRESIDENT, COASTAL ALASKA LINES, INC.

Mr. McMillan. Mr. Chairman, my name is Gordon McMillan. I am president of Coastal Alaska Lines. Coastal Alaska Lines operates tugs and barges—nonsubsidized vessels—to service Anchorage, Kodiak, Valdez, and Cordoba on a regular basis, and other Alaska communities on an occasional basis as freight needs dictate.

My company has been in business only 2 years, but plans to increase its service frequency and its geographic area in the very near future. As a small, privately owned company, Coastal must generate all of its capital needs from operating revenues and profits. It is Coastal's contention that in the final analysis APL's request, regardless of subsidy, prorate, rebates, or other accounting devices, will result in a subsidized carrier in competition with nonsubsidized operators.

Coastal believes that the existing Alaska shipping environment, in conformance with the Merchant Marine Act of 1936, has and will continue to provide the Alaska economy with cost-effective shipping services conducted in the spirit of the free enterprise system. Amending the act as proposed by APL will unfairly punish private, nonsubsidized operators, who have placed their capital at risk, and in time will reduce the overall shipping service to Alaska and its people.

Thank you.

[The statement follows:]

Statement of Gordon McMillan, President, Coastal Alaska Lines, Inc.

Coastal Alaska Lines, Inc. as a newly established common carrier, is strongly opposed to permitting subsidized carriers into the Alaska market.

C.A.L. operates tugs and barges to service Anchorage, Kodiak, Valdez and Cordova on a regular basis and other Alaska communities on an occasional basis as freight needs dictate. This service is based on shipping heavy lift and oversized cargo, such as mobile homes, modulars, pre-built homes, machinery, boats, etc., which are not amenable to shipping on regular steamship service, especially containerized steamship operations.

The above outsized and overweight cargo in general can only be economically moved by barge service throughout Alaska, thus, tug and barge operations, such as C.A.L., serve a vital need throughout the Alaska Coastal economy.

However, not withstanding the need for shipping such outsized commodities, the economics of the shipping market dictate that barge operators must fill out their loads with conventional cargos, such as lumber, containers, etc., to generate sufficient revenue. Thus, barge operators are both serving an important and needed market which cannot be satisfied by conventional steamship operators, and are in direct competition with these same carriers to obtain the needed base loads for an economical and feasible operation.

C.A.L. has been in business only two years but plans to increase its service frequency and geographic area in the very near future. As a small, privately owned company, C.A.L. must generate all its capital needs from operating revenues and profit. The entry of a subsidized carrier into the Alaskan trade would inevitably place the small, privately owned carriers such as C.A.L. at an unfair disadvantage. The entry of such subsidized operators will inevitably divert a portion of the base cargo that barge operators rely on. This in turn will result in the inability of barge operators, such as ourselves, to service Alaskan communities with the outsized cargo previously described. In addition, the entry of A.P.L. with its proposed feeder service will preclude the expansion of existing carrier's operations.

It is C.A.L.'s contention that in the final analysis, A.P.L.'s request, regardless of subsidy pro-rate rebates or other accounting devices, will result in a subsidized carrier in competition with non-subsidized operators. Secondly, we strongly believe that A.P.L.'s request to service Dutch Harbor will inevitably be expanded to include Kodiak and Anchorage.

The net result of such an unfair advantage in the highly competitive Alaska market will be a diminishing of overall service to the Alaskan community.

If the small barge operators cannot generate sufficient revenues to permit moving of other cargo which cannot be moved by steamship, such cargo will not be moved by anyone.

C.A.L. believes that the existing Alaska shipping environment in conformance with the Merchant Marine Act of 1936 has and will continue to provide the Alaskan economy with cost effective shipping services conducted in the spirit of the free enterprise system.

Amending the act as proposed by A.P.L. will unfairly punish private, nonsubsidized operators who have placed their capital at risk and, in time, will reduce the overall shipping service to Alaska its people.

STATEMENT OF EVERETT W. TROUT, VICE PRESIDENT, OPERATIONS, TOTEM OCEAN TRAILER EXPRESS, INC.

Mr. **Trout**. Mr. Chairman, my name is Everett Trout. I am vice president of operations for Totem Ocean Trailer Express, and I would like to offer into testimony the written statement of Robert McMillen, president of Totem Ocean Trailer Express, who at the last minute was unable to be here today.

Senator **Gorton**. That will be included in the record.

Mr. **Trout**. Totem Ocean Trailer Express has been in the Alaska trade for 6 years. We operate two modern, highly efficient roll on/roll off vessels serving Anchorage, Alaska, from Tacoma, Wash., twice weekly. We have invested in the Alaska trade $130 million of private risk capital, with no subsidy from any source. These investments have increased, and are ongoing.

In each of the last 4 years, we have added to our support equipment and our trailer equipment investment in excess of $1 million. We are at the present time receiving delivery of the first of 50 new insulated trailers, which represents an investment in itself of $1 million. We have done this despite the fact that we have shown no earnings in the first 5 years of our trade, and only in 1981 will we show a profit for the first time. We have every confidence that the State of Alaska will grow and that this growth will be the basis for adequate earnings. And we intend to stay in this trade.

In the process of this investment, and in the formation of this enterprise, we have produced jobs for an excess of 400 people in the Puget Sound area, and in the State of Alaska have brought a level of efficiency to Anchorage that can only be surpassed by air transportation. These vessels were built in American yards and are crewed by American crews. They are of American registry.

Alaska is our only business. We have no other trade routes. We have examined within the last 1½ years the possibility of service directly or indirectly to the area in question, and found through our own marketing people that that service was adequate and capacity was beyond the demand presently existing.

Regarding capacity, I would like to make one observation. We have over the last 3 to 4 years enjoyed a movement of seafood from central Alaska into Japan in connection with APL, and in so doing have moved APL containers north and loaded them for through service to Japan, connecting in Seattle.

In 1980, APL in furtherance of this service tendered 133 of their refrigerated containers to us, to move into Japan in through service. At the beginning of this year, the indications from Mr. Weimer, who is their special commodities man, was that we could probably receive 150 such containers in 1981. Because of the peak demands and capacity constraints that APL had this year, we were only provided 10 containers.

Senator GORTON. We will have to ask you to summarize at this point.

Mr. TROUT. The point that I would like to make is that the APL capacity, transpacific, was insufficient to allow the movement of this historical pattern off the coast. I am not critical of their business arrangement with us. I am only pointing that the capacity which they say is available was not available during the height of the season this year.

[The statement follows:]

STATEMENT OF ROBERT B. MCMILLEN, PRESIDENT, TOTEM OCEAN TRAILER EXPRESS, INC.

Mr. Chairman, members of the Subcommittee, and guests: I am Robert B. McMillen, President of Totem Ocean Trailer Express, Inc. (TOTE). I appreciate the opportunity to submit this statement to the Subcommittee in opposition to S. 1682. S. 1682 would amend Sections 506 and 605(a) of the Merchant Marine Act of 1936, to authorize subsidized vessels to engage in domestic service between the mainland United States and the island of Unalaska in the Aleutians. It is our firm conviction that changing curent law to allow subsidized vessels to serve western Alaska would not improve service to western Alaska; would drive existing unsubsidized carriers out of the trade; and would undermine longstanding U.S. maritime policy.

TOTE'S ROLE IN ALASKA

I would like to describe briefly our company and what we, our shippers, and the people of Alaska have to lose if the law is changed to allow a government subsidized competitor to enter the Alaska trade. TOTE has invested substantial private capital at substantial risk in order to provide high quality transportation for Alaskans. TOTE did not earn a profit in its first five years of operation. It appears that 1981 will be the first year in which we will do so.

TOTE operates two modern roll on/roll off vessels in the trade between the Puget Sound area and the Alaska rail belt. The Alaska rail belt roughly encompasses the ports of Anchorage, Whittier, Valdez, Seward and Homer, and inland points including the entire North Slope oil producing area, Fairbanks, and the Kenai Peninsula. We have also developed a viable connecting service with Western Pioneer over the port of Homer during the peak of the fish and shellfish seasons. This service supplements other existing service to Dutch Harbor.

TOTE entered the Alaska trade in September of 1975 with one vessel, and added a second vessel in 1977. TOTE's vessels fly the U.S. flag and are U.S. crewed. They were constructed in the U.S. yard without the benefit of construction differential subsidy, and are operated without the benefit of operating differential subsidy. TOTE's total investment in vessels devoted to the Alaska trade exceeds $100 million. Additionally, since entering the Alaska trade, TOTE has invested approximately $30 million in fixed port improvements, trailers and terminal operating equipment. Our $130 million private investment has created 320 new jobs of which 66 are sea-going labor, 162 are employees in the State of Washington, and 92 are employees in the State of Alaska. Additionally, 100 trucking employees (working for separate independent motor carriers) are dedicated exclusively to picking up and delivering our cargo in the lower 48 and Alaska.

TOTE has a substantial interest in S. 1682, even though we do not serve Unalaska directly. We are concerned that S. 1682 would be a precedent for allowing subsidized carriers to serve all of Alaska. A proposal by APL to do just that was defeated in the House during the last session. In addition we are concerned that the prospect of subsidized competition, even if limited to Unalaska, will make lenders less willing to finance construction of nonsubsidized vessels for the Alaska trade, thereby discouraging the nonsubsidized carriers from adding capacity.

EXISTING SERVICE

Although TOTE recognizes that many fish processors desire additional southbound capacity during the peak of the fishing season, we firmly believe that the existing carriers provide better service to Alaskans (including the fish processors) than they would receive from APL if S. 1682 were enacted.

The nonsubsidized carriers now serving western Alaska provide frequent, reliable, service. During 1980, they made 201 voyages to western Alaska, making 608 calls at 37 different ports, many of which are small and remote. Unalaska (population 1,322), for example, received service approximately every 2 days for 11 months out of the year, and Sand Point (population 625) received service, on the average, of more than once a week. Even more distant ports such as Dillingham (population 4,616) and Nome (population 6,537), which are inaccessible during the winter because of ice conditions, received frequent service during their shipping seasons. These points range from more than 2,500 to approximately 1,700 nautical miles from Seattle. See, An Analysis and Evaluation of the Joint Service Proposal of APL and Aleut Alaska for the Western Alaska Trade, prepared by Snavely, King & Associates, Inc. (Snavely Report) at 15-17.

The carriers operated at overall load factors of approximately 71% northbound, 66% southbound, and 68% overall on an annual basis, and had excess capacity of at least 15% northbound and southbound each month of the year. Id. at 21-27. Furthermore, these carriers are supplemented by unscheduled itinerant and charter barge services. The nonsubsidized carriers are in business to serve Alaska. Their equipment and management skills are dedicated to Alaska. Alaska is not just an incidental part of their business, it is their business.

MERITS OF APL'S PROPOSAL

APL's proposal will not benefit Alaska. The so-called Kramer Report, prepared on behalf of APL by Kramer Associates in 1980, claims that a host of benefits will accrue from APL's proposal. The attached statement by TOTE's vice president for operations, Everett W. Trout, shows in detail why those claims are inaccurate. To summarize, APL only proposes to offer service if there is space available on its vessels. This type of interruptible service will not improve transportation to Alaska. It will not alleviate the capacity problems which exist during the peak of the fishing season. It will not trigger development of a domestic groundfish industry. On the other hand, it will drive some of the existing carriers out of business, thereby substituting APL's subsidized service for the existing carriers' unsubsidized service.

1. Space available service

APL's proposal is for "space available" service. The agreement between APL and Aleut Alaska, as filed with the Federal Maritime Commission, permits APL to refuse Aleut Alaska cargo if APL does not have space available on its vessels. This type of service will not provide the reliable, long-term transportation which the people of western Alaska need. APL claims it will provide cheap reliable transportation suited to the needs of Western Alaska. In fact, the service will be cheap only because it will be unreliable and because it will be suited to APL's desire to increase its load factors, instead of to Alaskans' need for transportation service.

APL can realize the claimed advantages of incremental pricing only because it will offer space available service. Because APL will accept cargo from Alaska only if its vessel is partly empty when it arrives at Dutch Harbor, APL can afford to charge rates which cover only the additional costs of loading and handling that cargo. The rates need not cover the fixed costs of sailing the vessel. This is because the vessel is sailing anyway, whether it picks up the cargo or not. However, if there is no space on the vessel, APL cannot accept the cargo, since that would mean displacing international cargo.

APL claims that this service will promote economic development in the Aleutians, but investors will not make long-term capital investments based on service which APL will offer only if it has space available. What the people of Alaska need is stable, reliable service which will be available when they need it, not interruptible service available only when APL cannot fill its vessels with international cargo.

Aleut Alaska will bear most of the risk of the venture, because its ability to provide viable service depends on APL's load factors on international shipments. The proposed agreement between APL and Aleut Alaska requires Aleut Alaska to use APL for five years. If APL continues to receive enough cargo in Japan to fill its eastbound vessels, there will be no space available for cargo originating on Aleut Alaska's lines, and it will sit on the dock at Dutch Harbor until APL or another carrier has space available. Only then, when it suits APL's convenience, will western Alaska receive service from APL.

2. No improvement in service

APL's proposal will not improve service to western Alaska. A report prepared by Williams, Kuebelbeck and Associates, Inc. on behalf of the State of Alaska concluded that: "increases in service by a feeder [service] such as is proposed [by APL] would be offset to a large degree by reduction in services by other carriers."—Impacts of Domestic Trade Restrictions for Dutch Harbor/Unalaska, (Williams-Kuebelbeck Report) at 22.

In other words, there will be no net increase in service to western Alaska if APL enters the trade, because APL's entry would force other carriers out of the market. The Williams-Kuebelbeck Report acknowledges that the APL proposal may, at first, appear to increase the frequency of service. However, the report cautions that this increase could be maintained only if the existing carriers maintained their service, and that it is unlikely that they would do so. "Frequency of linehaul service to Dutch Harbor/Unalaska would increase *if all other carriers maintained their service,* but this would really have an impact only in the peak season and on southbound cargo."—Williams-Kuebelbeck Report at 3 (*italic* added).

The Report predicts that, in response to APL's entry, "existing carriers would likely restrict their service to key communities in the peak season. * * * These reductions in service could offset any improvements in service to the smaller communities."— Id. at 21. Thus if APL entered the trade, it could probably capture enough cargo to force some or all of the existing carriers either to cut back on their service or to leave the trade entirely. This decrease in nonsubsidized capacity would probably occur quickly and, in the judgment of Willams-Kuebelbeck, would in large degree offset any increase in service which APL could provide.

Furthermore, some communities would not benefit, even in the short run. For example reliability of service to Dutch Harbor might actually decrease, according to the Williams-Kuebelbeck Report. Id. at 4. In addition "Communities with nonexistent service will not benefit since the APL/AASC proposal only reaches those areas which are currently being served. Communities on the western portion of the Alaskan Peninsula will still have only seasonal service since year-round service is impractical when there is ice in the winter."—Id. at 27.

The Williams-Kuebelbeck Report also pointed out that the APL proposal probably will not result in lower prices for Alaskan consumers. First, at least a portion of the line haul cost savings probably would be used to subsidize feeder service, rather than to reduce rates to customers. Id. at 19. Second, any reductions in rates on supplies for fish processors "are not likely to be great, however, compared to total product costs." Id. at 5. Third, because transportation costs represent only 10 to 15 percent of the wholesale price of groceries, and because the retail price typically has a 50 to 70 percent markup over wholesale, even if APL reduced transportation rates by as much as 50 percent this would yield only a 5 percent reduction in consumer prices. Id. at 19.

3. No solution to fish Processors' desire for more southbound capacity during peak season

APL's proposal will not solve the capacity problems associated with southbound movements of fish during the peaks of the salmon and king crab seasons. Further, the capacity constraints which do occur at those times have been, in TOTE's experience, the result of limited numbers of refrigerated containers and trailers, and not a limitation on vessel space.

APL's proposal will not solve the highly seasonal equipment shortages which affect the fish processors. During the past season, APL has not had enough refrigerated containers to meet its existing commitments. In connection with its connecting carrier agreement with TOTE, APL furnished only one tenth as many refrigerated containers in 1981 as it had in 1980. Between mid-July and mid-August, at the height of the fish season, it accepted less than one third of the shipments tendered to it within the agreed time because of its shortage of refrigerated containers.

Even if APL had refrigerated equipment, it would not solve the capacity problem because APL does not have room on its ship for southbound cargo. According to the Williams-Kuebelbeck Report, APL does not have any excess capacity from Dutch Harbor to Seattle, because its vessels are completely filled with cargo imported from Asia when they pass by Dutch Harbor on their way to Seattle. Williams-Kuebelbeck report at 19. Thus if APL were to carry any southbound cargo from Dutch Harbor, it could do so only by leaving international cargo on the dock in Asia. This is contrary to the basic policy rationale of the ODS and CDS programs, which are designed to encourage carriers to compete in the foreign trades. Snavely Report at 7-8. Furthermore, even if APL ships returned from Japan totally empty, and could fill up entirely with southbound cargo at Dutch Harbor, APL could still only accommodate about one fourth of the total peak movements of southbound fish. Williams-Kuebelbeck Report at 20.

4. No benefit to groundfish industry

The Williams-Kubelbeck Report also concluded that APL's claims that its proposal would lead to development of a substantial domestic groundfish industry "can't be substantiated at this time." Id. at 28. Groundfish fishing will only be viable to supplement harvest of higher valued salmon and crab, utilizing processing plants during current "off seasons," when there is already excess capacity among the existing carriers. It is harvesting and processing technology, coupled with lower cost foreign fishing operations, which inhibit the domestic groundfish industry, not lack of transportation capacity. Adding capacity during the winter, when there is already excess capacity will not assist the groundfish industry. Furthermore, the primary market for Alaskan groundfish is Japan, which APL can serve without legislation, since it is not a domestic trade. Therefore, the Snavely Report concluded that it was "naive" to maintain that APL's proposal would lead to development of a groundfish industry and that such a conclusion "fails to recognize the many other factors required for such development and the reactive role that transportation plays in economic development." Snavely Report at 11.

In summary, TOTE believes that, on balance, the nonsubsidized carriers meet the transportation needs of Alaskans reliably, efficiently, and economically, even though none of us receive either CDS or ODS subsidies. Furthermore, APL's proposal will not alleviate the short term southbound capacity problems of the fish processors because APL has neither equipment nor vessel space available. Even though our service is not perfect, it is better than the service Alaskans would receive from APL. a subsidized carrier whose primary interest is foreign commerce, under S. 1682.

GOVERNMENT SUBSIDY OF CARRIERS IN THE DOMESTIC TRADES IS BAD PUBLIC POLICY

APL's proposed service will be a government subsidized service. APL has received over $200 million in construction differential subsidy between 1969 and 1979. In addition, it has received approximately $315 million in operating differential subsidies between 1971 and 1979. Snavely Report at 111-112. APL does not propose to pay back any of these subsidies. Furthermore, APL does not propose to give up its operating differential subsidy in the future. Instead, APL has only indicated that it would be willing to repay some unspecified portion of its future ODS subsidy.

This token repayment does not make APL's service unsubsidized. First, the vessels which APL proposes to use in this service were built in part with public funds. The nonsubsidized carriers' vessels, on the other hand, were built entirely with private funds. The nonsubsidized carriers have to earn a return on the entire cost of their vessels, while APL need only earn a return on part of the cost of its vessels. Second, as the Snavely Report points out, APL could not exist in the international trade without its subsidy. If APL were not already in the international trade, then obviously it could not offer its proposed incremental service to western Alaska. Thus the essential prerequisite to APL's proposal is its government subsidy. Id. at 113.

Allowing subsidized carriers to compete in the domestic trade would discourage the existing carriers from adding unsubsidized capacity. TOTE is prepared to invest additional capital to increase our carrying capacity, as the Alaskan economy and demand for transportation expand. Currently we are seriously considering a number of proposals for increasing our capacity. However, the current uncertainty over whether we will be forced to compete with a subsidized carrier like APL has made us understandably reluctant to make such a commitment at this time. It makes little sense for TOTE to acquire an unsubsidized vessel, at full cost to TOTE, if a subsidized carrier will be allowed to operate in the trade with a vessel paid for partly with public funds.

The subsidies granted by the Merchant Marine Act were intended only to enable U.S. flag carriers to compete fairly with foreign flag carriers which had lower construction and operating costs and which were subsidized (or in some cases owned outright) by foreign governments. Snavely Report at 106-108. Since the domestic trades are reserved for U.S. flag carriers, there is no risk of unfair competition from foreign subsidized carriers. The only danger is the one posed by APL, namely competition from carriers subsidized by the U.S. government.

Congress has recognized that a government subsidy gives a carrier an unfair advantage. The Ocean Shipping Act of 1978 (Public Law 95-483, 92 Stat. 1607) recognized that a carrier subsidized and controlled by a foreign government may enjoy an unfair advantage over other carriers. The statute therefore subjected controlled carriers' rates to strict standards of justness and reasonableness.

APL, as a subsidized carrier competing in the domestic trade with unsubsidized carriers, would enjoy many of the advantages which controlled carriers enjoy when they compete with the United States flag lines in the foreign trade. Chief among these advantages would be that APL would not have to set rates in its domestic service which contributed to its fixed costs or enabled it to earn a profit. Instead, APL could rely on its government subsidies and its international cargo for its profits, just as a controlled carrier can rely on its government's resources. For these reasons, the policies and safeguards underlying the Ocean Shipping Act of 1978 should be applied to APL's proposed service.

It is particularly inappropriate to allow APL to enter the domestic trade through Dutch Harbor. The Snavely Report points out that the economics of APL's proposed service simply do not justify the effort APL has made to secure authorizing legislation. Therefore, the report concludes, APL must have some other motive which it has yet to disclose. Snavely Report at 58. One possibility is that APL actually intends to serve the Alaska rail belt, not just Dutch Harbor. This is consistent with APL's prior efforts during the last session of Congress to obtain a waiver for the entire State of Alaska. Those efforts were defeated in the House, and APL should not be permitted to go through the back door, as it were, by pretending that its interest is limited to Dutch Harbor. Another possibility is that APL intends to use the Dutch Harbor service to balance its load factors on international shipments. Achievement of either of these objectives, could destroy the competitive nature of the current service and could force some of the nonsubsidized carriers to leave the trade.

CONCLUSION

Our company and our stockholders have devoted $130 million of investment and six years of effort in developing our service in the Alaska trade. We hope to earn a return on our investment this year, for the first time. We are committed to this trade and we believe in the long run our company has a profitable future and our employees' jobs will continue to be secure in providing this service. What we do not need, and what clearly is not warranted by the economic facts so clear in the Alaska trade, is a government subsidized competitor that will skim the cream of the cargo to the detriment of the existing private carriers and to the detriment of the service now provided to Alaskans.

We strongly recommend that the Subcommittee reject S. 1682. Thank you for this opportunity to present our views.

TOTEM OCEAN TRAILER EXPRESS, INC.,
Seattle, Wash., September 11, 1981.

ALAN BUTCHMAN,
Garvey, Schubert, Adams & Barer,
Washington, D.C.

DEAR ALAN: Enclosed is a copy of my rebuttal (from T.O.T.E.'s perspective) to the Kramer white paper supporting the A.P.L./Aleut position in seeking a Jones Act Waiver. It obviously deals heavily with the principle involved and attempts to position us for any subsequent expansion into the Anchorage market. I will seek your advice as to the scope and method of distribution. I have not composed a cover letter nor shared this with anyone outside this office.

It was disappointing, although not surprising, to learn (after our earlier conversation) that Pacific Western Lines had dropped out of our group. This apparently was due to pressure within the native community, presumably from the Aleuts.

Please also give me some direction regarding any support we might be able to provide from the "grass roots." Should we be attempting to develop letters from our employees and others? If so, along what lines and, if originating from areas of interest outside of Dutch Harbor, what should be their tenor and thrust? I think the A.P.L. forces are in full swing and I sense that we need to begin to counter their offensive.

Yours very truly,

EVERETT W. TROUT,
Vice President, Operations.

EXECUTIVE SUMMARY

Totem Ocean Trailer Express rebuttal to Kramer Report supporting A.P.L./Aleut effort to gain a waiver from the Merchant Marine Act of 1936 to allow subsidized vessels into a domestic ocean trade.

I. ISSUES RAISED BY KRAMER

A. Adequacy of existing service; the only legitimate, pertinent transportation issue to be considered.

B. Existing plight of Aleut Alaska Shipping Company.

C. Development of Alaska bottomfish industry.

II. SUBSIDY VS. NONSUBSIDY

A. Repayment of a portion of A.P.L.'s operating subsidy would not make their particpation in a Seattle to Dutch Harbor trade non-subsidized.

B. Operating subsidy has been a means to allow American-flag vessels to compete with their foreign counterparts in the international trades and has been strictly prohibited in domestic trades.

C. A.P.L. can serve Alaska now without subsidy in the same manner as present non-subsidized domestic carriers.

D. The restriction against subsidy in domestic service was purposely and wisely included in both the Merchant Marine and Alaska Statehood Acts by Congress and is not an "anomaly" as suggested.

III. ADEQUACY OF SERVICE

A. Six carriers serve Dutch Harbor, five of which made a total of 151 calls to this port from Seattle in 1980.

B. These six carriers operate with excess capacity.

C. A.P.L. during the peak summer season is presently exceeding their capacity for moving refrigerated containers from Seattle in the Transpacific trade indicating they would not, as stated, provide any relief during the peak salmon season in Dutch Harbor.

D. No service commitments are made to indicate how much capacity A.P.L. would be willing to dedicate to this trade.

IV. COMPARISON WITH HAWAII TRADE

A. Hawaii was served by one liner carrier and one barge operator providing transportation to 800,000 people when exceptions were granted.

B. Matson had 90 percent market share at the time and the waivers granted were highly restricted.

C. Dutch Harbor is served directly by six operators, indirectly by five others plus numerous charter and itinerant barge operators all serving an area with less than 55,000 people.

D. No dominant carrier exists and the trade is highly competitive.

V. DEREGULATION

A. No restrictions presently exist for non-subsidized entry into the Alaska trade as long as it is with American vessels and American crews.

B. Present rate regulation is less than with surface modes following deregulation.

VI. ILLUSORY PRICING BENEFITS

A. A.P.L. provides no rate information to support Kramer's incremental pricing concept.

B. It is likely A.P.L. will commit only "incremental capacity" to the domestic portion of their voyages and utilize "incremental pricing" to attract the more profitable cargo segments.

C. Existing non-subsidized carriers will then have to either raise rates on their remaining cargo to compensate or reexamine the profitability of continuing in the trade.

D. How will A.P.L. recover their costs of subsidizing the Aleut Service? Will this be done through higher rates or passing along existing government subsidy?

E. The cost example of mobile home shipments to Dutch Harbor attempts to make a false comparison without stating how A.P.L. would move these same items.

VII. ALEUT ALASKA SHIPPING CO.

A. This is not relevant to the issue of a potential Jones Act waiver.

B. The Aleuts could make connecting carrier arrangements with existing carriers without subsidy.

VIII. DEVELOPMENT OF BOTTOMFISH INDUSTRY

A. Hindrance of the development of a domestic bottomfish industry is due to the economics of foreign competition and development of processing technology.

B. Bottomfish activity will only occur in off season periods when a surplus of transportation capacity presently exists.

IX. DISADVANTAGES OF A WAIVER

A. A potential loss of existing non-subsidized carriers may cause negative impact to Dutch Harbor as well as other Alaska points.

B. A reluctance on the part of existing non-subsidized carriers to commit additional capital in the face of a subsidized competitor.

Rebuttal To Report Supporting A.P.L.'s Efforts To Obtain Jones Act Waiver Into Alaska

STATEMENT OF ISSUES

The Kramer Report (a white paper commissioned to support the A.P.L. effort to obtain a Jones Act Waiver for service to Dutch Harbor with subsidized vessels) involves itself with three separate and distinct subjects, only one of which is germane to the issue of whether or not A.P.L. should be granted a waiver from the Jones Act to serve Dutch Harbor (a domestic trade route) with subsidized vessels. These include the adequacy of existing service, the plight of the Aleut Alaska Shipping Company and their proposed connection with A.P.L., and finally, the development of a year-round bottom-fish industry in Alaska waters. These latter two matters are totally irrelevant to the proposed legislation.

SUBSIDY VS. NONSUBSIDY

Repayment of proportional amounts of subsidy relative to the percentage of cargo handled in domestic commerce will not make A.P.L.'s proposed operation non-subsidized. Their investment in vessels and, in fact, the total operation of each transit will be subsidized and the receipt of this subsidy will put them at an unfair advantage relative to their nonsubsidized competitors.

The inference is made in the Kramer Report that if an increment of subsidy is repaid the voyage for that particular increment of cargo becomes non-subsidized. A.P.L.'s principal argument for a Jones Act waiver is based on this fallacious premise. The voyage from Seattle to Dutch Harbor is a subsidized sailing and a small incremental repayment of subsidy doesn't alter this fact.

Operating subsidy was granted by Congress to allow American-flag vessels to compete in foreign trades against lower cost, government subsidized, and/or state-owned shipping lines serving the same trades. There are broad political and national security issues involved in the matter of operating subsidy. Similarly, Congress disallowed the subsidies for the domestic trade. Instead, the investment in capital assets necessary to participate in the domestic trades must be generated from the private sector and only American-flag vessels manned by American crews built in American yards can participate in this traffic. Again, there are, among other things, political and national security issues at stake.

A.P.L. can today enter the Alaska trade whenever they desire by doing so with domestic bottoms and American crews in a totally unsubsidized endeavor the same as all other domestic carriers in the Alaska trade. The ability to use subsidized vessels competing with private investment is what is objected to. This should not be allowed when subsidy is not available to (nor sought by) existing carriers to Alaska.

Neither is the present law, as suggested in the Kramer Report, an "anomaly" in the Merchant Marine Act. It is a provision, purposely and constructively made a part of the Act, and specifically reinforced under the Alaska Statehood Act, precisely to prevent the "double standard" which A.P.L. now seeks.

EXISTING SERVICE IS ADEQUATE

Aside from unsubstantiated general statements, the Kramer Report has no documentary or statistical evidence (nor even shipper's statements) indicating service failures or inadequacy of existing service. Five carriers made in excess of 150 calls to Dutch Harbor in 1980. (See Attachment No. 1). Our own experience in the trade is that excess capacity exists to Kodiak and the Aleutian Chain in both directions throughout the year except for the brief peaks of salmon and crab seasons. Only then, are there capacity constraints and in almost all cases these constraints exist not as a result of vessel capacity, but as a result of limited numbers of refrigerated containers and trailers.

A statement is made in the Kramer Report that the entry of A.P.L. into the Dutch Harbor trade will provide relief from this crunch and supply excess containers. In fact, however, this summer A.P.L. has not moved their existing refrigerated Transpacific traffic in a timely manner, even when it has been tendered to them against their own bookings in Seattle. For a period of time during the height of the season, A.P.L. refused any forward bookings at all.

For the past several years, T.O.T.E. has moved fish and shellfish from Alaska to Japan in connection with A.P.L. This has largely been accomplished by A.P.L. providing empty containers to T.O.T.E. in the Seattle area to be moved to Alaska. T.O.T.E. has loaded these in Anchorage or on the Kenai Peninsula with fish and moved them southbound on our vessels to Seattle for further shipment to Japan by A.P.L. In 1980, A.P.L. provided T.O.T.E. with 103 refrigerated containers for through movement of this cargo. However, in 1981, their container constraints were so severe that only 10 were tendered to T.O.T.E. for through movement from Alaska. As a result, it was necessary to load this traffic into T.O.T.E. refrigerated trailers in Alaska and transload the product into A.P.L. containers in Seattle. In a one-month period, between the middle of July and the middle of August, T.O.T.E. originated 33 Transpacific movements in Alaska in T.O.T.E. trailers for connection with A.P.L. on firm A.P.L. bookings. Of this number, A.P.L. had container capacity in Seattle to take only 10 within the agreed 48-hour period. The balance were delayed between two days and two weeks prior to receipt. In fact, significant volumes of fish were diverted from normal A.P.L. routings to other Transpacific carriers as a result of A.P.L.'s inability to move the product westbound. This experience does not indicate that the entry of A.P.L. in the domestic trade would provide additional refrigerated container capacity in Dutch Harbor during the height of the salmon season when they couldn't provide it in Seattle.

No statistical data has been provided indicating the frequency or extent of service which A.P.L. intends to offer, nor is there any evidence that existing service is inadequate to meet the needs of the areas in question. The Kramer Report makes only two points which justify even a cursory examination of the waiver issues; the precedent set to Hawaii and Guam and the present climate of deregulation.

COMPARISON WITH HAWAIIAN TRADE

The western Alaska trade is not analogous to the trade to Hawaii and Guam. Dutch Harbor in the Aleutian Chain is presently served by six non-subsidized ocean carriers operating in a variety of service modes. None of these handles over 50 percent of the market and the service of these six carriers is supplemented significantly by unscheduled itinerant and charter barge services handling tonnage which is impossible to statistically document. All of these carriers are operating at less than full capacity. It is a competitive broad range service impacted significantly by the elements. On the other hand, Hawaii, at the time of the waivers, was served by only one liner service supplemented by one other regularly scheduled barge service. There was virtually no competition to the Hawaiian Islands and Guam and the requirement for additional service was very necessary. Matson Navigation moved approximately 90 percent of the market resulting in a population of almost 800,000 people being totally dependent upon one carrier. Further, a series of maritime related labor disputes and work stoppages at this time had created additional problems in the islands. The reluctant granting by Congress of waivers in this regard stipulated that participation under such a waiver would be strictly limited to less than 10 percent of the market.

The proposed service to Dutch Harbor would add to the service offered by six other carriers to meet the needs of less than 55,000 widely scattered people. Scheduled service on a regular basis is supplemented by a number of non-scheduled charter and on-demand services. There is no inadequacy of existing service.

DEREGULATION ASPECT

Deregulation of the airline and motor carrier industries is similarly not analogous to the granting of a specific Jones Act Waiver to allow subsidized vessels to compete in domestic trades against nonsubsidized vessels. Deregulation of motor carriers, rails and airlines primarily eased entry restrictions and liberalized rate constraints. There is, in fact, little or no existing regulation of service to Alaska, and FMC rate filings are now free of most classic regulatory control.

This is not a matter of the validity of deregulation as a principle. Anyone, including A.P.L., can now enter the Alaska trade without restriction or regulatory approval and basically publish tariffs with rate levels of their own choosing. The issue is not one of deregulation, it is instead one of whether or not a "double standard" will be permitted.

PRICING BENEFITS ARE ILLUSORY

Throughout the Kramer Report, reference is made to "incremental pricing" resulting from A.P.L. being allowed to handle domestic commerce with their subsidized vessels. However, "incremental pricing" is undefined. A.P.L. should establish proposed rate levels and subject them to scrutiny based on their cost support. It is just this "incremental" aspect of economics which is objectionable with a subsidized service. No tariffs or rate schedules accompany the Kramer Report. Broad reference to incremental pricing is totally unsupported. The word incremental, however, is a double-edge sword. Is A.P.L. willing to handle traffic for a portion of their Transpacific movement in lieu of higher revenue through freight to the Far East? If so, are they willing to dedicate pre-determined blocks of space on each trip to domestic commerce? The non-subsidized carriers operating on fixed schedules must commit to these schedules regardless of load factors.

The incremental theory indicates that domestic traffic is, in fact, only going to be used to cream skim and fill out vessels which are running under capacity. As is mentioned above, for most of this summer, A.P.L. has been running at or above capacity and it is assumed, therefore, that no "incremental" space would be available westbound. The conclusion can similarly be drawn as to eastbound cargo, particularly when it is the head haul for most Transpacific carriers.

Coupled with this, is the obligation to underwrite a new service for the Aleut Alaska Shipping Company with its accompanying costs. Are these costs going to be part of the subsidy which A.P.L. receives or are they going to be borne through the normal rate making procedure? In either case, the benefits of "incremental pricing" may be short-lived and, in fact, for portions of the year nonexistent. Evidence would indicate that the portion of the year when this incremental service may be nonexistent will be that portion of the year when demand for service is greatest.

As an example of the rate issue which A.P.L. raises, the Kramer Report makes reference to Foss Alaska Lines charges for moving mobile homes from Seattle to Dutch Harbor, comparing them to similar charges from Seattle to Juneau. The point is made that Dutch Harbor charges are significantly higher than those to Juneau. No mention is made of the following points:

(1) The distance from Seattle to Dutch Harbor is approximately twice as far, direct line, as it is from Seattle to Juneau. It is two and a half times farther when necessary to traverse the inside route to stay in protected waters.

(2) The Juneau trip is entirely within the inside passage while the Dutch Harbor trip is either circuitous as mentioned or involves direct transit of the Gulf of Alaska. This involves open waters, rough seas and correspondingly high risks. The value of moving that type of commodity between the two points is not analogous and, in fact, the rate relationship appears to be directly proportional to the costs involved.

No mention is made of how much A.P.L. would charge for a similar service. Throughout the report, reference is made to the movement of cargo to and from Dutch Harbor in A.P.L.'s modern fast van ships. How then, does A.P.L. propose to move mobile homes 14' wide by 70' long? It is certainly impossible to put such units in conventional containers. In pointing to this, as an example of what they propose to show as pricing inequities, I think it is incumbent upon A.P.L. to demonstrate operationally how they would move this commodity and at what cost. The service proposed in the Kramer Report (and, in fact, as is conducted regularly by A.P.L.) would make the movements of outsize cargo, such as mobile homes, a very difficult undertaking. Specific commitments should be made by this carrier for the operational method of handling this cargo as well as the charges they would assess before presenting it as a pricing example to justify a "double standard" of service to Alaska.

ALEUT ALASKA SHIPPING CO.

As previously stated, the corrolary issues of the plight of the Aleut Shipping Company and the development of the groundfish industry are irrelevant and not germane to the granting of a Jones Act Waiver. In viewing the Kramer Report, however, certain facts should be brought out because every effort is being made by A.P.L. to cloud the real issue with these emotional sidelines.

The Aleut's claim in the Kramer Report that year-round service is practically non-existent to all communities in Alaska. In fact, to many, if not to most of these communities, service in the winter is impossible due to ice. Existing service, funded totally with private investment capital, provides year-round service to ice-free ports and has capacity available. The level of service as indicated previously speaks for itself. The present plight of the Aleut Alaska Shipping Company has resulted from a deterioration over several years due to many factors, none of which would have been or can be remedied by the granting of so drastic a legislative action as that which is proposed. In fact, if it is their desire to participate as a feeder service on a connecting basis, existing line-haul carriers are more than willing to sit down and discuss this with them. It is my understanding that two such overtures (by Foss Alaska Lines and Sea-Land Service) have been rejected out of hand without even entering the discussion phase. It is apparent that A.P.L. is simply using the Aleut Corporation as a political foil to obtain what they attempted to obtain a year ago and were denied. The issue of adequacy of existing service is the only basis upon which the present request should be similarly considered.

DEVELOPMENT OF BOTTOM FISH INDUSTRY

By volume, most of the Kramer Report deals with a rather broad, unsubstantiated contention that somehow the injection of subsidized liner service to Dutch Harbor enroute to Japan and return will result in the development of a comprehensive year-round bottom fish industry in Alaska waters. Nothing could be further from the truth. The groundfish industry has more than adequate transportation capacity based on existing services. When capacity is constrained during peak salmon and crab seasons, fishermen will not be fishing for bottom fish anyway. It will only be economical as a pursuit during periods when it is not possible to fish for higher value salmon and shell fish. During these periods, there is transportation capacity going begging now. The injection of subsidized service by A.P.L. will not provide anything which is not presently available.

Transportation costs are not hindering development of bottom fishing, it is harvesting and processing technology and the lower costs of foreign competition in the fishery. Additionally, if, as the Kramer Report suggests, Japan is the most likely customer for this traffic, A.P.L. does not need a waiver to serve that market, they can do so presently since it is not a domestic trade. The conclusion, that the granting of a waiver to permit subsidized liner service to move domestic cargo will provide the basis for the development of a high technology fish processing industry, is totally ludicrous.

DISADVANTAGES OF A WAIVER

There might be a temptation to see short-term benefits to this area of Alaska due to incremental pricing (resulting from subsidized service.) However, no one would endorse allowing foreign fishermen to provide fish to domestic processors on the grounds that their lower costs would benefit the fish industry. Similarly, work visas are not provided to foreign labor to work in Alaska although there might be short term cost benefits from doing so. Similarly, U.S. taxpayer subsidy assistance, in terms of vessels built under subsidy and operated under subsidy, should not be acceptable on the pretext that the resulting lower rates would provide short-term benefits.

Contrary to what is claimed in the Kramer Report, the granting of a waiver to allow A.P.L. to operate a subsidized service in connection with the Aleut Corporation (whom A.P.L. in turn proposes to subsidize) will not result in any benefits at all to Alaska. While stressing incremental pricing and the resulting alleged benefits to be derived therefrom, the report fails to mention some of the detrimental effects of the "double standard." The very nature of the proposed service, as described in the Kramer Report, involves the infusion of incremental capacity, available only as a supplement to their Transpacific traffic. The limited capacity which will be offered invites selective cream skimming. By pricing just below the existing rates, A.P.L. can pick off the most desirable traffic in the trade. What effect will this have on existing carriers which have for years offered a total service covering the entire spectrum of traffic moving to the Aleutians and Western Alaska? These carriers, operating with private, non-subsidized capital, hold themselves out to move all traffic; the marginal unattractive cargo along with that which is more desirable (and may be highly profitable). What will be their reaction if the high-end traffic is siphoned off? Either rates on the remainder of their traffic will have to be raised or they may simply decide the return on their non-subsidized investment is inadequate to justify their continued participation in the trade. In either case, there is no overall net benefit to Alaskans in the area served and, in fact, there will be a detriment.

Further, all carriers in the Alaska trade will watch the development of this matter with interest relative to possible future investment. The capital required to meet the overall transportation demands of a growing, expanding Alaska market have been met by the private nonsubsidized Alaska carriers. These carriers have invested in assets and equipment as needed. Many carriers have borne large losses in lean years to support their service so it would be responsive (and profitable) in good years. Other carriers have not survived as the competitive market place has taken its toll. In doing so, it has concurrently served its role (strictly in the private sector) by insuring that the remaining carriers were stronger, more competent, efficient operators.

Now it is proposed to change the rules. These carriers, who have proven their willingness to compete in the atmosphere of vigorous private enterprise, are to be faced with a potential new dimension. Over their heads will hang the spectre of a competitor operating under subsidy with all the advantages offered by taxpayer assistance. The willingness of non-subsidized carriers to commit additional capital under these circumstances is questionable. While A.P.L. (the subsidized operator) will continue to treat Alaska traffic as a convenient adjunct to its subsidized international cargo, the non-subsidized wholly domestic carriers must commit to a trade which is their very existence. To A.P.L., Alaska is merely a "target of opportunity"; to T.O.T.E. and others operating to and from Alaska, it is the entire reason for being and the total basis upon which decisions must be made to commit or not commit additional private capital. The short-term narrowly perceived advantage to a few thousand people in western Alaska may work to the overall disadvantage of the population centers in rail-belt Alaska. The issue of a "double standard" should be soberly weighed.

[Attachment No. 1]

Number of calls by carrier at Dutch Harbor in 1988

	Times
Western Pioneer	38
Foss Alaska Lines	24
Sea-Land Service	35
Crowley Maritime	48
Northland Services	6

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question 1. It has been repeatedly stated that approval of the A.P.L. proposal would make existing non-subsidized carriers reluctant to commit additional capital in the face of a subsidized competitor.

Exactly how would it affect your current growth plans?

Answer. Since the post-pipeline low year of 1979, Alaska has experienced two consecutive years of expanded growth, particularly into the railbelt section which TOTE serves directly. The combined, direct transportation of commodities supporting the development of the oilfields, and the buoyant economy resulting from the benefits of the royalty oil money to the State of Alaska, seem likely to fuel a continued growth for at least the short-term 3-5 year period. As stated in my testimony, TOTE has added to and replaced support trailer equipment with investments in excess of $1 million for each of the last three years. Continuing such investment, as well as the very expensive decisions relative to added vessel capacity, involves extensive analysis and justification under the best of conditions. Firm determinations relative to prospective market volumes, as well as capacity plans of others must be considered in great detail. To have, above all of these factors, the cloud of a possible subsidized competitor, precludes any positive investment decisions of this magnitude.

In 1979, when A.P.L. sought their first waiver, it encompassed the entire State of Alaska. It is stated in the Williams Kuebelbeck Report prepared for the State of Alaska that A.P.L. could capture 100 percent of the northbound cargo to Dutch Harbor by offering no more than 50 containers every two weeks. Based on the time, effort and money expended, seeking the legislation manifested by S. 1682, it is hard to believe that A.P.L. will long be satisfied with a waiver restricted to the Island of Unalaska. If S. 1682 is passed, subsequent Alaskan points will be added with considerably more ease than this initial effort. Therefore, the fact that the present waiver is restricted to Unalaska, does not in any way eliminate the cloud as it applies to TOTE's investment decisions in our railbelt service. This aspect of their proposal is well presented in detail in the Snavely Report (An Analysis and Evaluation of the Joint Service Proposal with A.P.L. and Aleut Alaska for the Western Alaskan Trade) at page 59.

Any possible plans for direct or connecting service to the western Alaska area is, of course, totally impacted by the possibility of this waiver and cannot even be approached without a definitive disposition of the matter.

Question 2. The A.P.L. proposal has been supported by some on the analogy that Hawaii may be served on a subsidized foreign trade voyage under an exception to the Act adopted with enactment in 1936. Yet, Hawaii was then served by one liner and one barge operator providing service to 800,000 people; Matson held a 90 percent market share. In Dutch Harbor today, more than half a dozen operators compete to serve 55,000, and no one holds a dominant market share.

Do you believe the analogy has any value?

Answer. The circumstances surrounding the waiver to Hawaii are simply not analogous to the proposal submitted by A.P.L. relative to Alaska. At the time the Merchant Marine Act of 1936 was passed, there were two carriers routinely serving Hawaii enroute to foreign destinations on established trade lanes. Foremost of these was Oceanic Steamship, a wholly-owned subsidiary of Matson Navigation which served Hawaii in connection with passenger and freight service to the South Pacific and Australia. Similarly, States Lines (or its predecessor company) served Hawaii enroute to the Orient, albeit on a much less frequent schedule. With the passage of the Merchant Marine Act of 1936, neither carrier could receive operating subsidy and still continue to serve Hawaii as they had in the past. Accordingly, both Oceanic Steamship and States Lines applied for a waiver to allow continuation of a service previously in operation. It was in a manner of speaking a "grandfather" situation. Matson (the overwhelmingly dominant non-subsidized carrier to Hawaii), as the parent company of Oceanic, did not oppose and in fact favored the granting of these waivers. The basis for repayment of operating subsidy was calculated as a requisite for allowance of the waiver at this time. Further, in the case of States Lines, the waiver restricted the line to be a specified number of calls based on the call frequency of the previous year and further limited these to the trade route involved with their past service.

Primary to the granting of the waiver at this time was the determination that it was necessary to foster the international service in which these carriers were engaged and not to provide more frequent or less costly domestic service. This factor in our judgment is a significant difference between the Hawaiian situation and the present proposal.

As a matter of fact, there is only one carrier, United States Lines, presently serving Hawaii with a waiver of subsidy, and this carrier receives no operating subsidy for the trade route involved. They do, however, receive construction subsidy, a portion of which is paid back under terms of the waiver. It is significant that in the A.P.L. proposal no suggestion is made to pay back any part of the construction subsidy for their vessels.

Question 3. If A.P.L. successfully competes for northbound cargo leaving Seattle, thereby cutting into the already deficient amount of cargo available to non-subsidized carriers, won't the non-subsidized carriers have to raise rates on southbound cargoes to cover the costs of the round trip?

Answer. Both Williams Kuebelbeck and Snavely deal very effectively with this question. Actually, several possible scenarios or combinations thereof might occur. If A.P.L. successfully diverts significant volumes of northbound cargo to Dutch Harbor, there is a virtual certainty that all rates for both the balance of northbound cargo (that is, those items which do not lend themselves either to containerization or a transload feeder operation), as well as southbound traffic will be raised. In addition to, or possibly instead of this, it is extremely likely that there will be curtailment of service, frequency, or destinations of calls, or all three.

The further danger facing the shippers and residents of western Alaska is, if the Snavely conclusion is correct, that the interface between A.P.L. and the Aleuts is mismatched to the extent that it will not be viable operation. The end result may be higher rates by the non-subsidized carriers; less competition with fewer calls and fewer carriers, and ultimately, the termination of the A.P.L./Aleut service as well. The possible final result would be considerably worse than the existing situation.

Question 4. If A.P.L. provides predominantly northbound service to Dutch Harbor, will it be moving sufficient cargo to underwrite the costs of the Aleut Alaska feeder service?

Answer. As with the previous questions, the Snavely Report deals with this issue succinctly and in great detail, specifically between pages 33 and 39. According to Williams Kuebelbeck, A.P.L. estimates a northbound (or westbound as the case may be) capacity of 50 containers every two weeks. Mr. Hubbard of A.P.L., in his verified statement, estimates that bi-weekly capacity between 30 and 85. The capacity of the proposed Aleut Alaska Feeder Service with tugs and barges is 112 containers. Since Dutch Harbor is the most populous area to which service is proposed, it is assumed that some significant percentage of the inbound A.P.L. capacity would be destined to Dutch Harbor. If this is only 30 percent, a maximum of 35 to 46 containers would be available every two weeks to the Aleut Alaska feeder service, resulting in only 31 to 41 percent load factor utilization of the available Aleut Alaska barge capacity. This is based on the very conservative assumption that only 30 percent of A.P.L.'s inbound line capacity is destined for Dutch Harbor itself. If the volume of cargo consigned to Dutch Harbor exceeds 30 percent, these numbers are even lower than I have stated.

The situation is greatly exacerbated if, as it appears, A.P.L. has little or no southbound (or eastbound from the Orient) capacity. This will eliminate the benefits of a balanced operation for the Aleut feeder service and, of course, provide nothing to alleviate the short-term capacity constraints of the fish processors during the salmon and king crab season.

Question 5. Were A.P.L. to successfully compete for cargo to and from Dutch Harbor, wouldn't the impact on the unsubsidized carriers be compounded in the sense that not only would they attract cargo away, but it would be the higher valued container cargo?

Answer. The contention of the non-subsidized carriers from the very beginning has been that this is exactly what would happen. The proposal involves a space available service based on "incremental pricing" (specific quotation from the Kramer Report) possible only as a result of the subsidized service involved. Much of the cargo moving to western Alaska could not be handled in containers. Specific reference to these commodities was made by witness Vic Jansen of Knik Construction Co. Unsubsidized carriers serving western Alaska who depend on appropriate mix of higher value container cargo, along with break bulk building materials, construction supplies and other items, in order to generate a balanced revenue flow, will find this high-end traffic no longer available to them. As stated in my answer to the third question, these carriers then would either have to increase the balance of their rates, reduce service and/or capacity, or some combination of all three. Despite protests to the contrary, this will occur directly as a result of subsidy allowing A.P.L. to cream skim.

Question 6. What are the advantages of the line-haul and feeder service concept of transportation for western Alaska?

Answer. Conceptually, it is possible to argue that "even-up" the line-haul feeder service would provide a superior mode of transportation on a call-by-call basis to the existing relay system used by Sea-Land, the barge feeder service used by Foss, or the direct vessel call by small break bulk vessels presently used by Aleut Alaska and Western Pioneer. It must be emphasized, however, that this is only true on a call-by-call basis. As Mr. Snavely testifies, three days transit time, if departures only occur every 14 days, is only three days transit time for that cargo received the day of or day before departure. Cargo available for loading the day after departure, for example, will receive 17-day transit time at best. Sea-Land's twice weekly service to Anchorage and then Kodiak relaying to Dutch Harbor would surpass the APL/Aleut proposal for any cargo received for the first 5 to 6 days following an A.P.L. sailing and would probably equal it for the middle day or two of that period. Only if the APL/Aleut proposal provides the level of service contemplated without harming the unsubsidized carriers, and only if the wholesale recipients of that service pass those savings on to consumers, will there be any advantage to residents in the area. If, however, as both Snavely and Williams Kuebelbeck suggest, the service advantages of APL/Aleut are offset by the detrimental effects on the non-subsidized carriers, the conceptual advantages of line-haul feeder combinations will be illusory and in fact will ultimately be a disadvantage. The advantage of the concept only exists if service commitments both in capacity, volume and frequency compare to the number of calls made by other competing service modes.

Question 7. Couldn't it be provided by existing non-subsidized carriers?

Answer. It is my understanding that both Sea-Land Service and Foss Alaska Lines have sought to interest Aleut Alaska in connecting on the same basis. While not matching the actual transit time, Sea-Land, with their container vessels, could come reasonably close with much more frequent sailings. Any combination of this type of service in connection with the Aleut Alaska Company or any other tug, barge or small vessel operator could provide the same type of service operationally, but again, it will only succeed if it is economically viable. The volumes to each of the port locations considered would have to stand on their own. By doing so, however, it will be assured that the checks and balances of private enterprise will provide a stability to the service areas justified by profitable operations.

Question 8. Do the non-subsidized operators have excess capacity in all weeks other than peak salmon season?

Answer. Information provided by all carriers to Snavely, King & Associates indicates that excess northbound capacity exists year round by non-subsidized operators, although some southbound short falls occur during king crab season as well as salmon season.

Question 9. Will A.P.L. help alleviate the problem during that peak season?

Answer. Based on the state evidence that A.P.L. will have little or no southbound capacity available, there is nothing in their proposal which will offer any relief to the capacity constraints during either the peak salmon or crab seasons.

Question 10. Is the problem at all related to the practices, operation, or capacity of the seafood processors?

Answer. The very narrow time limits and high peak demands of the salmon and crab seasons are the primary reasons for the capacity constraints which exist. These short time frames impact the investment limitations of the fish processors to the same degree as they do the vessel operators. If sufficient cold storage capacity existed at the various processing locations, existing refrigerated container capacity and vessel capacity would be sufficient to handle all of the salmon and crab without difficulty. Problems occur because sufficient cold storage capacity to "stretch out" the effective season does not exist and, in fact, investment in such capacity probably is not justified for the same reasons that the vessel operators cannot justify the vast number of refrigerated containers which are needed but would only be used for a single trip during these high demand periods.

This is further impacted by the vagaries of the fishing industry itself. As testified to by many witnesses at the hearing, the 1981 king crab season has been a disaster. The harvest simply was not there. If the processors had made significant investments in cold storage capacity anticipating a heavy harvest (to relieve normal constraints), they would have enjoyed absolutely no return on that investment for the 1981 king crab season. Similarly, refrigerated container capacity investments for the same purpose went unused. In the case of Totem Ocean Trailer Express, we did position some 50 refrigerated containers on the Kenai Peninsula anticipating connecting service with Western Pioneer Lines as has occurred in each of the four preceding years. In 1980, we moved approximately 340 refrigerated trailers of king crab south in connection with this operation. The harvest was so bad this year that not a single trailer was loaded in this service. The cost of trucking, spotting and holding this expensive equipment in anticipation of traffic which did not develop and the subsequent movement of these trailers back into our system empty, while significant, was only a fraction of the losses which would have occurred had we and other carriers invested in equipment sufficient to meet 100 percent of the anticipated volumes for 1981.

The salmon season presents much the same type of difficulty. Depending on the species of fish, salmon run in either two or three-year cycles. Building cold storage facilities or investing in and positioning refrigerated containers for the peak season of the peak year would provide assets which would only be of use a very few days. In short, there is no practical, economical way of dealing with the problem other than to, in some way, stretch out the fishing season or develop alternative utilization of cold-storage capacity. A bottom fishery might provide that but its development is not going to occur as a result of transportation but instead with improve technology and market competiveness with foreign alternatives.

Question 11. Are a sufficient portion of the containers A.P.L. intends to provide refrigerated and thuns suitable to transportation of seafood?

Answer. There is no information on the record that has been made available to this writer by which A.P.L. commits to any specific numbers of containers nor do they indicate what amount of these would be refrigerated. In the rebuttal to the Kramer Report, appended to my written testimony, as well as the brief statement made orally by Everett Trout, TOTE's Vice President of Operations, we state that A.P.L., during the peak seasons of 1981, had severe shortages of refrigerated containers. In 1980, A.P.L. tendered 133 refrigerated containers to TOTE to move to Alaska and load with frozen salmon destined to Japan. These containers were moved southbound to Seattle by TOTE and interchanged to A.P.L. In 1981, we anticipated similar movements of A.P.L. containers but despite early assurances they were only able to tender 10 such pieces of equipment to us. In addition to this short fall, they were unable to accommodate in a timely manner that traffic which we moved down in our own trailers and which had to be subjected to costly transloading into their containers. Significant amounts of this traffic originally intended for Trans Pacific movement with A.P.L. was changed to other routings as a result of their short fall in refrigerated containers or vessel capacity. Based on the fact that it is stated repeatedly on the record that little or no capacity would be available westbound, coupled with TOTE's experience related above, there seems to be strong evidence that A.P.L. would not provide any significant container capacity to seafood processors.

Question 12. What forms of government benefits do the "non-subsidized" carriers receive? (e.g., loan guarantees, use of capital construction funds, government contracts such as mail or military, purchase of government-owned vessels at below market value).

Answer. In the case of TOTE, the only government benefits which we receive (and the term benefit is used advisedly), involved Title 11 mortgage guarantees for the vessel. This, of course, can in no way be defined as a subsidy. Title 11 allows the purchase of the vessel on the best long-term interest rate available based on the government guarantee. If the purchaser, as in the case of TOTE's vessels, has the ability to privately obtain the same level of interest, no actual direct benefit accrues to the carrier. Such is the case with our vessels. Most private financing sources, however, look to the traditional Title 11 guarantees before considering any vessel financing. In our case, because the ability to attract funds was probably the same with or without that guarantee, the cost of obtaining Title 11 was really a disbenefit.

While TOTE has participated in the movement of military cargo in connection with the MSC annual contracts to Alaska, this again cannot be considered a benefit. This traffic is awarded based on competitive biddings and normally moves for much less than commercial tariff rates while involving, in some cases, additional services. Further historic payment practices of government agencies are extremely slow compared to private industry and the cost of carrying these funds is far greater than with commercial traffic. The "benefits" of the military traffic from our experience means lower revenue, higher costs, greater efforts, and slower payment schedules. This can hardly be viewed as a benefit, particularly in a strong market.

STATEMENT OF THOMAS GARSIDE, VICE PRESIDENT, CROWLEY MARITIME CORP.

Mr. **Garside**. Mr. Chairman, members of the committee, my name is Tom Garside. I am vice president of Crowley Maritime Corp., responsible for common carrier services. These services include both Alaska and Hawaii. I will not read my statements, which have been submitted to the committee. Instead, in the interest of time, I will highlight some of the points which I believe are most important.

I request that my written statement be made part of the record.

Senator **Gorton**. It will be so included.

Mr. **Garside**. Crowley Maritime Corp. has since 1957 operated to, from, and within western Alaska, through a number of wholly owned subsidiaries, including Pacific Alaska Lines and Arctic Lighterage Co. Pacific Alaska Lines operates a seasonal tug and barge service between Seattle and the Bering and the Bristol Bay areas. Arctic Lighterage provides a feeder service and a lighterage service to the smaller ports in the Bering Sea and Bristol Bay area.

In fact, there are 120 small ports and villages served, and are shown on the copies of the tariffs provided with my statement.

Another subsidiary, Salmon Carriers, provides a feeder service from western Alaska to Sea-Land's line haul vessels and interconnects at Kodiak Island for furtherance to Seattle. Alaska Hydro-train, with which I am sure you are familiar, one of our subsidiaries, feeds rail cars to the Alaska railroad for service into central Alaska. We receive no subsidies. We have over a quarter of a billion dollars invested in the Alaska trade, including dock and shoreside facilities at Nome and Kotzebue. We own terminals at Dutch Harbor, anticipating the future growth of the OCS in that part of the State.

Illustrating our ability to respond to Alaska's need is our contract carriage and support of the oil exploration and development on the north slope. This year, the legendary operation was the subject of an article in a recent edition of Time magazine.

We are a part of Alaska. We intend to stay there, so long as our competition is not unfairly subsidized, and to expand our service with the growth and needs of that State. We are now working with the oil companies to develop the OCS oil fields, and are planning extensively to meet these developing needs. Our present investment and our growth potential is hazarded by S. 1682. The probability is high that unfair competition from subsidized carriers with predatory pricing can cause unsubsidized carriers to fall by the wayside.

We have a healthy, strong system in place now, configured to the needs of the State, highly efficient, low operating cost, barges and lighters with cranes installed, ideally suited, built and outfitted to serve the particular area. It would be folly to provide minor assistance to APL and the Aleut Corp. and dismantle a system now in place.

APL is a carrier in the foreign trade. Subsidies are provided to them to assure that the United States has a strong foreign trade merchant marine. By law, then, they must give priority to foreign trade. They cannot be relied upon to meet Alaska's growth needs.

We suspect that many of APL's voyages will bypass Dutch Harbor when their priority and higher revenue cargoes provide—and preclude them to lift on domestic freight. If it were otherwise, then the subsidies they receive are excessive.

Thank you.

Senator GORTON. Thank you.

[The statement follows:]

STATEMENT OF THOMAS E. GARSIDE, VICE PRESIDENT, CROWLEY MARITIME CORP.

Good morning, Mr. Chairman, my name is Thomas E. Garside and I am a Vice President of Crowely Maritime Corporation. I am here to testify in opposition to S. 1682 which would allow a subsidized carrier, American President Lines, to extend its current subsidized service in the foreign trade to the domestic trade between Alaska and the lower 48 States.

Crowley Maritime Corporation has for many years operated common carrier services to and from Western Alaska through its wholly owned subsidiaries, Pacific Alaska Lines and Arctic Lighterage Company. Pacific Alaska Lines operates a seasonal tug and barge service between Seattle and the Alaska Peninsula, Bering Sea, and Bristol Bay areas. Arctic Lighterage provides a feeder service to the smaller ports in the Bering Sea and Bristol Bay areas. The ports served by these carriers are shown on the tariffs filed with the Federal Maritime Commission which are attached to my statement. In addition to these services, during the salmon season from June through September, Arctic Lighterage performs a barge feeder service commonly referred to as Salmon Carriers, serving, among other areas, the Alaska Peninsula, the Bering Sea, and Bristol Bay. This service is operated in conjunction with Sea-Land's line haul service between Seattle and Kodiak, Alaska. All of these services are performed without operating subsidies, and the vessels we use were built without construction subsidies. In addition to the vessels and related equipment, Arctic Lighterage Company has made substantial investments in docks and shoreside facilities at Nome and Kotzebue. Crowley's total investment in the assets currently employed in these trades is approximatley $18,000,000. These assets and the common carreir services provided by Crowley will be put in jeopardy if S. 1682 becomes the law and APL and Aleut Alaska Shipping Company combine and operate in the manner they have proposed.

The present transportation problem in Western Alaska is solely attributable to the limited frequency of feeder service to smaller ports during the short king crab fishing season in September and October when virtually the entire king crab catch is harvested. It would be a serious mistake to amend longstanding provisions of the Merchant Marine Act, 1936, and to open all the Alaska trade to a subsidized carrier just to attempt to alleviate a problem than exists in one part of Alaska and for only one or two months in the year. It would be a mistake because even if there were short-term benefits, in the long run it would threaten the financial viability of the unsubsidized lines and could result in a reduction of the total service offered to the affected areas. It would also be a mistake because it would reward one of the largest corporations in America, Natomas, and its subsidized carrier APL, and would unfairly penalize all the unsubsidized lines which have made investments in the Alaska trade in reliance on the prohibitions of the 1936 Act. And it would be a mistake because Aleut Alaska's problem (lack of a line haul capability) can be solved by making reasonable connecting carrier arrangements with one or more of the existing unsubsidized carriers, such as Foss or Sea-Land. We understand that these lines have sought to work out a reasonable arrangement with Aleut Alaska and remain willing to do so, if Aleut Alaska would make a good faith effort to negotiate with them.

Section 506 of the Merchant Marine Act, 1936, 46 U.S.C. § 1156, requires every operator of a vessel built with construction-differential subsidy to agree (and APL has agreed) that the vessel shall be operated exclusively in foreign trade. Section 605, 46 U.S.C. § 1175, precludes payment of any operating-differential subsidy (upon which APL depends) for the operation of a vessel on a voyage on which it engages in coastwise trade. These and other provisions of the 1936 Act are expressive of a basic Congressional policy that the subsidy authorized is intended to assist U.S.-flag carriers to compete with lower-cost foreign-flag carriers in foreign commerce, and that U.S.-flag carriers receiving public funds should not be permitted to utilize the advantage gained therefrom to compete with unsubsidized U.S.-flag carriers in the domestic coastwise trades from which foreign-flag carriers are excluded. Such competition and operation by subsidized carriers is thus by existing law presumptively unfair as between subsidized and unsubsidized U.S.-flag carriers. Because APL's subsidized transpacific operations already support its service, APL, unlike the unsubsidized operators, does not have to rely upon the relatively small Western Alaska trade to maintain its operations. Congress has recognized that a carrier whose operations are principally supported by revenue and subsidy in the foreign trade will have an inherent advantage over non-subsidized lines which are confined to the smaller domestic trade and receive no subsidies. The relatively small repayment of subsidies contemplated by S. 1682 cannot significantly reduce that advantage.

The significant advantages to APL from this legislation should place upon it the burden of showing that there will be no unfair competition to the unsubsidized lines. APL thus far has made no attempt to prove that amendment of Sections 506 and 605 will not result in its unfair competition. On the contrary, APL and Aleut Alaska in fact have asserted in support of this legislation that their proposed service will result in lower rates, presumably through incremental pricing by APL. This sort of predatory pricing will hasten the demise of the smaller unsubsidized operators.

The unsubsidized carriers, including Crowley Maritime Corporation, invested heavily in vessels and equipment in reliance on these provisions of the Merchant Marine Act, 1936. None of the common carrier services has been developed or operated with public funds. If these amendments to the Merchant Marine Act become law, and APL and Aleut Alaska in fact provide the service they claim will be provided, then there is no question that their service will be in a position to capture substantial cargoes to the detriment of the unsubsidized carriers.

In the past the unsubsidized lines have had unutilized space throughout the year. That shows that the space is there to meet the demand. If the Merchant Marine Act is amended, the APL/AASC service will not fill any present inadequacy, but rather will skim the cream of the trade. In the larger northbound Western Alaska trade, upon which the unsubsidized carriers rely to provide the revenue which enables them to offer service in the smaller southbound trade, none of the unsubsidized carriers can economically offer APL's biweekly service with a 3½-day voyage from Seattle to Dutch Harbor. Because of this superior transit time APL/AASC will be able to pick and choose from the pool of available cargo, particularly if, as they claim, they offer lower rates than the unsubsidized carriers can afford. In the southbound trade, AASC will apparently feed cargo principally from the ports which already receive the most service by the unsubsidized carriers, and APL will book cargo from Dutch Harbor in its own name (AASC acting as agent). To the extent AASC acts as a feeder for APL, it will be competing primarily for the same cargo as the unsubsidized lines. To the extent APL will be competing for cargo originating in Dutch Harbor/Captains Bay, it will also be in a position to pick and choose cargo, limited only by its empty capacity, because of its superior 3½-day transit time—a result of operating vessels it would not have but for the subsidies received under the Merchant Marine Act. The other unsubsidized carriers will be left with lower-rated cargo or cargo APL does not want to carry, or cannot carry because it is unsuited to container transport.

Crowley Maritime Corporation is also seriously concerned about the long term impact of permitting APL to engage in the Alaska domestic commerce. These amendments to the Merchant Marine Act have been justified by their proponents upon the need for more southbound capacity during the peak fishing season. Yet the amendments themselves, and the agreement between APL and AASC which has been filed for approval with the Federal Maritime Commission, go far beyond that limited need. There is nothing in the amendments which would prohibit APL from booking and carrying cargo in its own name to or from the lower 48 States and the island of Unalaska. Indeed, APL will apparently act as the common carrier for all southbound cargo originating in Unalaska and for northbound cargo which does not originate in Seattle. There is also nothing in the amendments which would prevent APL's foreign commerce vessels from acting as the line haul vessels for other feeder services to and from other parts of Alaska. The proposed legislation limits APL's foreign trade vessels to calls at Unalaska. It does not, however, limit APL's common carriage of Alaska cargo to cargo originating in or destined to Unalaska. If APL decides to offer, either directly or indirectly, through transportation to rail belt Alaskan points, then the effect of this legislation will undermine not only the existing unsubsidized service to Western Alaska, but also the unsubsidized service to the larger Eastern Alaska market as well. It would be a very serious mistake to enact legislation which goes so far beyond the immediate problem and threatens the viability of existing unsubsidized service to all of Alaska, particularly where the carrier proponents of the legislation have made no disclosure of their long range plans for the Alaska trade.

This tariff supersedes and cancels
Pacific Alaska Line, Inc. Freight
Tariff No. 1-A. All matter not
brought forward is hereby deleted.

2nd Revised Title Page
Cancels
1st Revised Title Page

Effective Date:
September 1, 1981

Original Title Page
Effective Date: May 4, 1981

F.M.C. - F No. 3
Cancels
F.M.C. - F No. 2

Correction No. 33

PACIFIC ALASKA LINE, INC.

FREIGHT TARIFF NO. 1-B

Vessel Operating Common Carrier Tariff

Naming

Local Class and Commodity Rates

Between

Seattle, Washington

And

Alaska Ports and Points
(See Page 4 Herein)

Via

Direct and Transshipment at

Nome and Kotzebue, Alaska

Governing Tariffs:	See Page 13
Applicable Agreements:	D.C.-137
Participating Carriers:	See Page 4
Expiration Notice:	ΔNone

Issued By:
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VS155B/5

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PACIFIC ALASKA LINE, INC.
Freight Tariff No. 1-B, F.M.C. - F No. 3

ORIG / REV	PAGE
Original	4
CANCELS	PAGE
EFFECTIVE DATE	
May 4, 1981	
CORR. NO	

Abbreviation	Participating Carriers	Address
ALC	Arctic Lighterage Company	Third and Garden Street Kotzebue, Alaska

INDEX OF REGULAR PORTS OF CALL
FROM AND TO WHICH RATES APPLY
BETWEEN ALASKAN PORTS OF CALL

Station	Port or Rate Group
Alakanuk	YUK
Barrow	BAR
Bethel	BET
Dillingham	DIL
Emmonak	YUK
Kotzebue	KOT
Mountain Village	YUK
Nome	NOME
St. Marys	YUK

AND
STATE OF WASHINGTON PORTS OF CALL

Port	Container Yard
Seattle, Washington	4260 West Marginal Way S.W.

FOR EXPLANATION OF REFERENCE MARKS AND ABBREVIATIONS, SEE PAGE 12-13

BEST COPY AVAILABLE

PACIFIC ALASKA LINE, INC.
Freight Tariff No. 1-B, F.M.C. - F No. 3

ORIG / REV	PAGE
1st Revised	5
CANCELS	PAGE
Original	5
EFFECTIVE DATE	
September 1, 1981	
CORR NO	36

SECTION I

RULES AND REGULATIONS

INDEX OF POINTS SERVED

DILLINGHAM

Aleknagik
Clark's Point
Ekwok
Elilakok
Enapuk
Ekuk
Igushik
Kanakanak
Koliganek
Kulakak
Levelock
Lewis Point
Manokotak
Mosquito Point
Nanuchuak
Nasauguik
New Stuyahok
Nushagak
Snag Point
Togiak
Tunravik
Twin Hills
Wood River

YUKON RIVER

Alakanuk
Emmonak
Kotlik
Mountain Village
Pitkas Point
Sheldon Point
St. Mary's

BARROW

Kaktovik
Point Hope
Point Lay
Wainwright

BETHEL
UP RIVER

Akiachak
Akiak
Aniak
Chuathbaluk
Crooked Creek
George Town
Kalskag
Kwethluk
Kasigluk
Lower Kalskag
McGrath
Napamute (Napiamute)
Red Devil
Sleetmute
Sterling Landing
Stony River
Takotna
Tuluksak

BETHEL
DOWN RIVER

Akolmiut
Atmautluak
Chefornak
Chevak
Eek
Goodnews Bay
Hooper Bay
Kipnuk
Kongiganak
Kwigillingok
Mekoryuk
▲Napakiak
Napaskiak
Newtok
Nightmute
Nunapitchchuck
Oscarville
Platinum
Quinhagak
Scammon Bay
▲Toksook Bay
Tuntatuliak
Tununak

KOTZEBUE

Ambler
Buckland
Deering
Kiana
Kivalina
Kobuk
Noatak
Noorvik
Selawik
Shishmaref
Shungnak

NOME

Brevig Mission
Elim
Gambell
Golovin
Grantley Harbor
Koyuk
Savoonga
Snaktoolik
St. Michael's
Stebbins
Teller
Tin City
Unalakleet
Wales
White Mountain

FOR EXPLANATION OF REFERENCE MARKS AND ABBREVIATIONS, SEE PAGE 12-13

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[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. It has been repeatedly stated that approval of the A.P.L. proposal would make existing nonsubsidized carriers reluctant to commit additional capital in the face of a subsidized competitor.

Exactly how would it affect your current growth plans?

Answer. Crowley Maritime Corporation conducts tug and barge operations in several areas of the United States including Alaska. Within Alaska we serve, through subsidiaries, the Alaska Rail Belt, the Alaska Peninsula, Western Alaska, and the North Slope. We see an increasing demand for services in all those areas and are projecting the need for new tugs, barges, and for adding decks to existing barges. We are well aware of the great growth potential in Alaska from oil development in the Outer Continental Shelf, minerals, coal, and fishing. Discussions have taken place with oil companies in connection with OCS exploration. Our plans are based, however, on the assumption that our competition will be from unsubsidized carriers, like ourselves. We would not invest the substantial money involved in expansion if there is a probability that subsidized carriers would be allowed to enter these trades in unfair competition. Equally important is the high probability that financing would either be unavailable or too costly because of concerns from the banking community. To some degree we have the ability to shift equipment from operations with negative or low profitability to operations with higher rates of return. Our growth plans would therefore be modified and equipment redeployed as the situation warranted.

Question. The A.P.L. proposal has been supported by some on the analogy that Hawaii may be served on a subsidized foreign trade voyage under an exception to the Act adopted with enactment in 1936. Yet, Hawaii was then served by one liner and one barge operator providing service to 800,000 people; Matson held a 90% market share. In Dutch Harbor today more than half a dozen operators compete to serve 55,000, and no one holds a dominant market share.

Do you believe the analogy has any value?

Answer. We do not believe the analogy supports the A.P.L. proposal. The following is a quote from our letter, dated October 27, 1981, to Senator Inouye on this subject:

". . . It was Congress' intent when it enacted the 1936 Merchant Marine Act to prohibit any incursion of U.S. flag subsidized operations in U.S. domestic trades. Congress permitted the exceptions in Sections 506 and 605(a) only because it felt they were necessary to permit continued competitive operation in foreign trade by then-existing US-flag carriers under the proposed subsidy program. There is no such need today with respect to those operations which could also service Alaska.

". . . No subsidies are required in domestic trades to meet differentials in operating conditions since foreign flag vessels are specifically excluded from rendering these services. Congress provided exceptions in Sections 506 and 605(a) where there could be no unfair competition to domestic operators—e.g., where there was no domestic operator to protect or where the subsidized carrier's service could not be said to result in unfair competition to a domestic carrier.

". . . Hawaii is served predominantly by one large unsubsidized carrier, Matson Navigation Company and secondarily by United States Lines and by two unsubsidized barge operators, Hawaiian Marine Lines and Sause Brothers Ocean Towing. It is my understanding that United States Lines, a US-flag carrier engaged in foreign trade is not now receiving operating differential subsidy, but has received it in the past, and recently received approval for subsidy contingent on availability of subsidy funds. Matson and United States Lines compete with each other primarily out of California. Whether the competition of United States Lines constitutes unfair competition is probably best judged by Matson. I understand, however, that Matson considers the competition to be unfair in that the formula for repayment of CDS does not adequately reflect the interest benefit the carrier derives. We believe that Matson's position in that regard is correct."

Question. If A.P.L. successfully competes for northbound cargo leaving Seattle, thereby cutting into the already deficient amount of cargo available to nonsubsidized carriers, won't the nonsubsidized carriers have to raise rates on southbound cargoes to cover the costs of the round trip?

Answer. Yes, the nonsubsidized carriers would have to raise rates on southbound cargoes and probably on northbound cargoes, assuming that there is sufficient cargo to carry in either direction to remain in business. We have argued that should

A.P.L. be allowed to enter the trade they would "skim the cream" because they would not be able to meet all the needs of all shippers. If that were to occur, it would possibly follow that the cargo remaining after the "cream was skimmed" would not be susceptible to the higher tariff rates because of the lower value of the cargo.

Question. If A.P.L. provides predominantly northbound service to Dutch Harbor, will it be moving sufficient cargo to underwrite the costs of the Aleut Alaska feeder service?

Answer. The information now available is inadequate to judge effectively whether there will be sufficient cargo to underwrite Aleut's costs. We believe however, that the small volume of cargo that moves northbound for a large number of widely dispersed villages makes it unlikely that Aleut's costs can be covered. It is evident that Aleut's two small break-bulk reefer ships are not going to be able to transship containers in a timely manner to the many villages. A.P.L. is proposing to provide additional equipment to Aleut and/or guarantee financing of additional equipment. The degree to which A.P.L. will be willing to subsidize Aleut is not known. Admittedly, A.P.L. will be able to incrementally price its service and has substantial flexibility in allocation of costs to this service. The tariff rates however need not be constructed to cover costs and a fair profit. They can, instead, be constructed to simply be sufficiently lower than the competition so that shippers will accept the lower cost service. In fact, if the service were as good as the petitioners claim it will be, they could conceivably charge higher rates. There may be enough profit in the total northbound and southbound service, therefore, for A.P.L. to subsidize the Aleut's feeder service—at least until the competition is eliminated and rates could be raised to reflect the Aleut's costs.

Question. Were A.P.L. to successfully compete for cargo to and from Dutch Harbor, wouldn't the impact on the unsubsidized carriers be compounded in the sense that not only would they attract cargo away, but it would be the higher valued container cargo?

Answer. Yes. The degree to which A.P.L./Aleut would capture cargo depends on the capacity which A.P.L. wishes to devote to the Alaska trade and the ability of Aleut to transship northbound cargo and feed southbound cargo in a timely manner. We believe that A.P.L.'s best interests and their obligation for accepting federal subsidies dictate that priority will be given to foreign trade, and Alaska cargo will be moved on a space available basis. It is logical therefore that the cargo they carry to and from Alaska would be the higher valued container cargo.

Inclusion of the word "container" in the phrase, "higher valued container cargo" is significant. The barge industry is now profitably shipping large units of cargo which cannot be carried in containers. If A.P.L./Aleut are successful in their proposal there will be a serious decline in the barge industry's ability to carry such outsized cargo in other than a charter mode.

Question. What are the advantages of the line-haul and feeder service concept of transportation for Western Alaska?

Couldn't it be provided by existing nonsubsidized carriers?

Answer. A line-haul service provided as an incidental part of a longer voyage, as in the case of A.P.L.'s West Coast to Far East Service, could have the advantages of lower cost and more frequent service. Those advantages however are dependent on the carrier allocating sufficient space on each ship, having line haul ships call at the transshipment point frequently and regularly regardless of the volume of cargo to be transshipped, and having a feeder service fully compatible with the line haul service (e.g. containerizable) and with a frequency that matched the line haul ships.

It is our understanding that Sealand and Foss have attempted to negotiate with Aleut to establish a service similar to that proposed by A.P.L., but were unable to satisfy Aleut's requirements. Why is not known. The line haul service must, in the Alaska case particularly, be part of a larger service in order to provide the required frequency and reliability.

Sealand and Salmon Carriers (a Crowley subsidiary) do provide a feeder/line-haul service, transshiping salmon originating in Bristol Bay at Kodiak bound for Seattle.

Question. Do the subsidized operators have excess capacity in all weeks other than peak salmon season?

Will A.P.L. help alleviate the problem during that peak season?

Is the problem at all related to the practices, operation, or capacity of the seafood processors?

Answer. Yes, the nonsubsidized operators have excess capacity in all weeks other than the peak salmon season. The "Snavely Report", submitted to the Committee under the sponsorship of the unsubsidized carriers, provides detailed information concerning capacity utilization.

A.P.L.'s ability to alleviate the problem during the peak season will depend on:

1. A.P.L.'s capacity at the time. Their obligation under federal subsidy laws is to foster foreign trade. They could not, nor would it seem logical that they would want to, displace Far East cargo with Alaska cargo.

2. Aleut's capacity. The equipment they now have and the vagueness of their acquisition plans make their capacity appear to be problematic.

The practices of the seafood processors wherein the seafood is harvested in an extremely short period of time and processed with what appears to be minimal storage facilities contributes to the problem. The proper balance of harvesting, processing, storage, and transportation is usually attained under the economic forces bearing on the problem, and the Alaska fishing industry is no exception. Modifying the Merchant Marine Act of 1936 changes those economic forces, so that the problem may be solved in a different way, but not necessarily the most appropriate way when considering all the elements involved.

Question. Are a sufficient portion of the containers A.P.L. intends to provide refrigerated and thus suitable to transportation of seafood?

Answer. We are not knowledgeable as to the number and type of containers which A.P.L. intends to provide.

Question. What forms of government benefits do the "nonsubsidized" carriers receive? (e.g., loan guarantees, use of capital construction funds, government contracts such as mail or military, purchase of government-owned vessels at below market value).

Answer. Nonsubsidized carriers receive the benefits of Jones Act protection, Title XI loan guarantees, and the use of Capital Construction Funds.

The Jones Act, contained in the Shipping Act of 1920, is the successor of similar laws dating back to the founding of the United States and has counterparts in the laws of every other major maritime country in the world. It is essential for national defense.

Title XI loan guarantees have been administered in a manner which has resulted in the taxpayer incurring no cost and has greatly enhanced the construction of ships in U.S. shipyards.

Capital Construction Funds are effective in creating the capital needed to maintain the size of the U.S. Merchant Marine and sustain United States shipyards.

Title XI and Capital Construction Funds are available to both subsidized and unsubsidized carriers.

Unsubsidized carriers may carry government cargo such as mail or military material, but at tariff rates. Typically such tariff rates reflect the high volume of government cargo shipped.

We are not aware that unsubsidized carriers are able to purchase government-owned vessels at below market value.

STATEMENT OF JAMES J. HAAGEN, PRESIDENT, NORTHLAND SERVICES, INC.

Mr. HAAGEN. Mr. Chairman, committee members, I am James J. Haagen, president of Northland Services. Northland Services operates tugs and barges in common carriage service between Seattle, Dutch Harbor areas, Bristol Bay, the Bering Sea, and Kotzebue Sound. We offer approximately 10 round-trip voyages per year, with calls at 18 different communities.

Northland transports both break bulk containerized cargo on a direct basis to most of the communities served. Northbound cargo typically includes supplies for the fishing industries, machinery, construction materials, modular housing, and other outsized cargo not suitable for movement by ship. Southbound cargo includes canned and frozen seafood products.

Our operation was begun and has been developed with private capital. The proposed entry into this trading area of a subsidized carrier would represent, in our opinion, unfair competition, not only to our operations, but to other nonsubsidized carriers, and would likely reduce our ability to expand and improve our service as we have done over the last several years.

Northland Services seriously doubts that the introduction of the APL/Aleut Alaska service, as presently planned, would significantly benefit the Dutch Harbor area, or that it could be made to work, either operationally or economically in the vast western Alaska region north of Dutch Harbor.

We have no objection to any carrier entering any trade at any time on the same basis as existing service is now provided. Our company entered the western and northern Alaska trade in 1978 in direct competition with the other nonsubsidized carriers. Based upon our review of the substantial research now completed by interested parties in the APL/Aleutian Alaska issue, and our own knowledge and experience, we recommend denial of APL's request that they be allowed to enter the domestic trade between Seattle and Dutch Harbor.

Thank you.

Senator GORTON. Mr. Snavely, is it the implication of the testimony of some members of your panel that you expect APL would have problems performing the service which it has claimed it could perform?

Mr. SNAVELY. Senator, with its present capacity, it would have problems. You will note that they speak only of excess capacity or empty containers moving northbound—which means, as near as I can determine, they have no excess capacity moving southbound. Yet the activity or the need that they propose to alleviate or fulfill is the southbound movement of fish.

Now, I don't really know how much excess capacity they have northbound. The statement of Mr. Hubbard before the Federal Maritime Commission in support of their agreement would indicate it is between 25 and 85 containers, depending upon the time of the year. Aleut Alaska will have capacity for 112 containers on their two barges. So that with APL going northbound only once every 2 weeks, even at the maximum of the 85, they will not deliver enough containers to Dutch Harbor to fill the capacity of the barges within that 2-week period.

Senator GORTON. Does that mean that Aleut would not be able to run a viable feeder service, or simply that it will be under total capacity from time to time?

Mr. SNAVELY. It is my belief, Senator, without any additional capacity being put into the trade by APL, that Aleut Alaska could not possibly run a viable feeder service.

Senator GORTON. Would any—or all—of the nonsubsidized carriers be able to provide similar service for the Aleut Alaska? Would any of them be able to provide barges for it?

Mr. SNAVELY. I think some of the nonsubsidized carriers could provide the service similar to that proposed by Aleut. Others of the nonsubsidized carriers could provide a service similar to that proposed by APL. You must remember their transit time from voyage to voyage—I'm sorry, not transit time. Their time from voyage to voyage is 14 days. It matters not if 1 vessel leaves on day 1 and arrives 14 days later or if the other one leaves on day 10½ and arrives at the 14th day. They have both only arrived once.

The transit time advantage, the speed that is spoken of, can only benefit the area of Dutch Harbor, and that will be served directly by APL, and Aleut Alaska will not even have benefit of that cargo, because there is no place to peddle it.

So, when you consider that, first, that the capacity seems to be in the northbound direction; second, that some of that capacity will be utilized to the Dutch Harbor area directly, which provides no cargo for Aleut—you come to the conclusion that Aleut will not have sufficient northbound capacity to support its operations.

Further, if there is no—or limited, southbound capacity, Aleut will be running empty, or virtually empty, in the southbound direction, because they can bring all of the cargo in the world back to Dutch Harbor, but if APL can't pick it up, the service is not performed, and any rational shipper will then send its southbound trade on another carrier.

Senator GORTON. Thank you. I will have a number of other questions. But in the interest of time, I will submit them in writing.

Senator Inouye?

Senator INOUYE. Gentlemen, you were here when the first panel testified, attesting to the hardship experienced by the citizens living in this island chain. To what would you attribute this high cost of living there?

Mr. SNAVELY. I think, Senator, the high cost of living can be attributed to several factors.

One is that the geography and the population of the area is such that you cannot get the benefits of mass retailing or mass transportation. That is, unfortunately, if you will, one of the disadvantages of living in a sparsely populated area.

Second, I think it is attributed to—in fact, my experience some years ago in Alaska demonstrated that a 50-cent freight rate on, say, a carton of cans of peas will somehow translate itself into a $5 increase on the total of the 24 cans of peas, when sold at the retail level. Part of that, of course, is that the merchant himself experiences higher costs of living, and therefore he must mark up more, of which I am certain you are well aware.

I really think, sir, that it is basically a problem experienced by any widely dispersed, thinly populated area that can only be reached by vessel or by air—the former being a carrier that lives on volume, that is how its costs become less; the latter being a carrier that will always have high costs. It is just one of the evils, if you will, of living in that type of area.

Senator INOUYE. The major thrust of the testimony of the first panel was that with the involvement of the APL/Aleut combined the cost of commodities to the consumer will come down rather significantly.

Mr. SNAVELY. I would be very skeptical of that happening, for two reasons. One, even if they did reduce the transportation rates, the retailer would have to reflect that reduction in his pricing. And there is no guarantee that he will do so.

No. 2, given the imbalanced service that they are proposing, which is essentially a northbound service—given what I believe to be insufficient capacity to support that service, whatever savings APL may be able to accomplish by providing, as I have called it, a secondary, space-available service, will be more than eaten up by Aleut Alaska to support its own service, which will not have sufficient cargo for its capacity.

So I don't see that there is any real chance of this service, as proposed today reducing the cost of consumer items in western Alaska.

Senator **Inouye**. Are the carriers at the present time providing scheduled service?

Mr. **Snavely**. Yes, sir. Some carriers are providing scheduled service direct. Some are providing scheduled service on a line haul feeder basis out of Sitka or Kodiak. Others are providing what one would call scheduled seasonal service, and some are providing a strictly on demand service.

You must keep in mind, Senator, that the term "scheduled service," as used in Alaska, is not like a bus schedule or a train schedule, where one comes by every hour on the hour. In essence, a scheduled service is the result of a carrier looking at his estimates of the demand that he will have, and saying, "I will sail a voyage on this date, this date, and this date, calling at these ports," making that schedule public, and keeping to it. He then serves other ports on what is known as an on demand basis. If the cargo is there, he will stop for it. But it is not a schedule in the strict sense of an airline or a railroad schedule.

Senator **Inouye**. Finally, the "64 Million Dollar Question." The Merchant Marine Act of 1936, as it applies to the problems we are discussing now, I think, rather clearly sets forth a scheme to make certain that competition is fair, and that the subsidized lines will not move in to stifle competition.

Would you say No. 1, that this will stifle competition?

Mr. **Snavely**. Senator, it will either fail or it will stifle competition. As it is presently structured, I think it will fail.

If, as APL indicated this morning, they are bringing on more vessels and will expand their Seattle-Asian trade directly, thus having more vessels with considerably more excess capacity, then the scheme will succeed financially. But indeed, because there is, and there always must be, a balance between supply and demand, eventually the other carriers will have to withdraw from the trade. And the western Alaska trade will be made up of fewer carriers, and less competition.

Senator **Inouye**. Is it your contention that if this proposal is adopted, the other carriers now in operation will withdraw from that area?

Mr. **Snavely**. Of necessity, someone will have to withdraw if the proposal is adopted, and if APL provides the capacity to make it a viable proposal, because there is not enough cargo out there now to keep the existing carriers at the high level of capacity utilization.

Senator **Inouye**. Thank you.

Senator **Gorton**. I would like to thank the panel. There will be additional questions submitted to you in writing.

We will next hear individually from Mr. Charles Hiltzheimer, the chief executive officer of Sea-Land Industries Investments, Inc.

Subject to today's rather difficult rules you will have 5 minutes, Mr. Hiltzheimer.

STATEMENT OF CHARLES HILTZHEIMER, CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES INVESTMENTS, INC., ACCOMPANIED BY J. A. BAKER, EXECUTIVE VICE PRESIDENT, ALASKA DIVISION

Mr. HILTZHEIMER. Thank you, Mr. Chairman. I am Charles Hiltzheimer, chairman and chief executive officer of Sea-Land Industries and I have with me Jack Baker, Alaska division executive vice president of Sea-Land Service, Inc..

Mr. Chairman and members of the subcommittee, we welcome the opportunity to present testimony in opposition to S. 1682 and the proposal to allow subsidized foreign commerce carriers into the domestic Alaska trade. We believe S. 1682 would violate both the spirit and the letter of the Merchant Marine Act of 1936 and would unquestionably jeopardize the continued viability of existing services provided by nonsubsidized companies to remote portions of Alaska.

I would like the record to show that Sea-Land is not opposed to allowing any new competitor to engage in domestic transportation service to Alaska, but the proposal to allow subsidized entrance to the trade under S. 1682 is biased against nonsubsidized carriers. APL or any other subsidized carrier should not be given legislative permission to enter the domestic Alaska trade while retaining Federal subsidies.

The main proponent of the amendment, American President Lines, is a major U.S. subsidized liner carrier that received $37 million in Federal subsidies during 1980 and a total of about $900 million since the inception of the subsidy program. Contrary to the contentions that APL would pay back subsidy if permitted to add domestic Alaska cargos to its trans-Pacific sailings, appendix 1 in our statement shows that APL would continue to receive about $2 million per ship per year in both ODS and CDS benefits, in addition to the millions of dollars of domestic revenue they would take from the nonsubsidized carriers in this trade.

It is therefore quite easy to understand why American President Lines seeks enactment of S. 1682. APL and any of the other subsidized liner carriers that will probably be released from their trade route restrictions during the next year or so, would retain almost all of their foreign commerce subsidies while adding domestic revenues on the same voyages with little incremental cost. Obviously, transportation rates could conceivably be lower if the transportation cost is heavily subsidized.

An independent study for the State of Alaska notes that APL's proposed service would provide them the capability to capture all of the inbound and outbound domestic volume, depending upon their volume of foreign commerce, except during the peak season of the year. This would undoubtedly result in the reduction and/or extinction of some nonsubsidized service, thereby actually creating a serious deficiency of service during peak periods when the fishing industry's transportation needs are the most critical.

I wish to affirm for the record of the hearing today that Sea-Land is willing to negotiate an agreement with Mr. Krukoff and the Aleut Corp. for feeder vessel operations in the Aleutian chain. Senator Stevens raised the question of the availability of service to meet the current and future needs, and I want the record to show that Sea-Land will provide, as we have in the past, expanded service as required, and we will do it without Government subsidy.

Instead of the subsidy aspects of S. 1682 we respectfully offer a substitute amendment for consideration by the subcommittee. The substitute amendment would permit entry to the domestic Alaska trade by additional carriers on a fair basis of nonsubsidized competition as presently exists in the trade. The substitute is set forth in appendix 2 to our statement, and would grant the subsidized carriers, including APL, the opportunity to enter the Alaska trade upon meeting two requirements: First, voluntary carrier termination of its operating differential subsidy payments; and second, complete repayment of the total unamortized construction differential subsidy for those ships that would transport the domestic Alaska cargo. Thus, all the carriers in the domestic trade would then compete on a nonsubsidized basis and APL would also help close the Federal budget deficit by operating in the foreign commerce without the millions in Federal operating subsidies like Sea-Land does.

We urge the subcommittee to reject S. 1682. It would be an unwise and damaging amendment of the law, and we offer our substitute amendment as an acceptable and fair alternative. And I would like to then end by just asking this question of the committee: Why would any sensible businessman continue to invest private risk capital if the U.S. Government is going to subsidize his competition, and thereby encourage a potential monopoly to a given area? I suggest that the Congress should be seeking incentives for reducing Federal subsidies instead of encouraging subsidized carriers to the detriment of privately financed ones.

Thank you.

Senator GORTON. Mr. Hiltzheimer, how does your proposed amendment differ from what can be done under the law without any change at all?

Mr. HILTZHEIMER. Well, our proposed amendment would require that any subsidized carrier who desired to engage in domestic commerce would forfeit his subsidy benefits both in the CDS on those vessels involved in the domestic trade and forfeit ODS in its entirety.

Senator GORTON. Can't APL do that right now?

Mr. HILTZHEIMER. Yes, they could voluntarily do it. But I question that they would do that for the service that is contemplated here.

Senator GORTON. Then you question very seriously whether APL would operate under your proposed amendment?

Mr. HILTZHEIMER. Yes. In fact, I think that if the Congress were to adopt our proposed amendment, the result would be that APL would rather retain their subsidy than they would provide this service.

Senator GORTON. I see your amendment as perhaps even going further than is necessary. Is it your thrust that APL would have to give up its operating subsidy even on ships that would not be used in the Alaska trade?

Mr. HILTZHEIMER. Yes, sir.

Senator GORTON. Do you want to justify that?

Mr. HILTZHEIMER. Well, yes, sir. I think it is quite easy to understand. Today under the law, those carriers who now serve Alaska are required by law to build their ships in U.S. yards and they cannot receive any CDS benefit nor ODS benefit. So their investment, the investment they have today, and their future investment under today's law represents a 100 cents on the dollar. If you permit APL to come into a domestic trade for whatever reason, they are coming in with an investment of 50 cents on the dollar, approximately, on their ship construction plus an ongoing annual ODS on their whole fleet.

Senator GORTON. I can understand that, as far as any vessels that would actually be serving Alaska is concerned, but why would it be just to extend that even to those which would not serve Alaska at all?

Mr. HILTZHEIMER. Because there is no practical way to separate the flow of subsidy money to a carrier that is operating in the foreign commerce from a spillover of that subsidy money into domestic commerce. And they could, in fact, subsidize the rates by providing lower rates in domestic service from the subsidy they are receiving in the foreign subsidized service.

Senator GORTON. Senator Stevens?

Senator STEVENS. I apologize, Mr. Chairman, to everyone. Senator Baker was tied up and I had to go over and open the Senate. But I did have some questions for the prior panel which I will submit. And I think Sea-Land—I hope these witnesses and those who are here for Sea-Land recognize the situation. They provided additional service to Alaska and we are proud to have you in Alaska, but on the other hand, haven't you had subsidies too, and title XI guaranteed loans of trade-in program vessels?

Mr. HILTZHEIMER. We've had no title XI financing, and under my understanding of subsidy, we've had no subsidy.

Senator STEVENS. You say that if these vessels which are currently coming empty to Alaska carry freight to Alaska, that you think that the company should have to give up—repay all of its subsidy; is that correct?

Mr. HILTZHEIMER. Yes, sir.

Senator STEVENS. As I understand it, they do have some vessels being built now in American yards, and those vessels could run from Seattle to Dutch Harbor and they could run back from Dutch Harbor to Seattle without any waiver, couldn't they?

Mr. HILTZHEIMER. No, sir.

Senator STEVENS. Why not?

Mr. HILTZHEIMER. They were built with CDS. Vessels built with CDS cannot operate in the domestic trades under the present law.

Senator STEVENS. They would have to have a waiver with repayment under existing law?

Mr. HILTZHEIMER. Yes, sir.

Senator STEVENS. Your proposal goes beyond existing law, doesn't it?

Mr. HILTZHEIMER. Yes, sir.

Senator STEVENS. And it would require a special type of repayment as a penalty for those who want to serve this portion of Alaska?

Mr. HILTZHEIMER. Well, a penalty or privilege, depending upon your viewpoint.

Senator **STEVENS**. Let me ask this: What have you done to develop the intra-Alaska trade on the Aleutian chain?

Mr. **HILTZHEIMER**. Well, I would like for Mr. Baker to speak to that, since he is more familiar with today's developments than I am. Jack?

Mr. **BAKER**. Thank you. Senator, we initiated service from Kodiak down the Aleutian chain in 1972, and since that time we have run a scheduled service from either Anchorage or Kodiak down the Aleutian chain, stopping at points between Kodiak and Dutch Harbor, Sand Point, Falls Pass. We have served Dutch Harbor on a normal basis every 2 weeks. Like most of those communities down there, though, their demand or their volume of traffic is small and at certain times of the year there is less demand than others. It can change based upon seasonal demand. Contrary to some testimony you heard earlier, we have provided service from Anchorage and Kodiak down the chain, in addition to service from the Lower 48. There is not a lot of volume, and our total interport trade, including Cordova and Kodiak from Anchorage, has been less than 700 loads a year for 8 or 9 years.

Senator **STEVENS**. There really isn't a schedule in that service, though, is there?

Mr. **BAKER**. On the feeder? Yes, there is.

Senator **STEVENS**. On a frequency basis?

Mr. **BAKER**. Yes, sir. Every 2 weeks.

Senator **STEVENS**. What? From Kodiak?

Mr. **BAKER**. Yes, sir.

Senator **STEVENS**. To Dutch Harbor?

Mr. **BAKER**. Every 2 weeks.

Senator **STEVENS**. Have you indicated any desire to take over the service provided by the Northstar? I'm sure you're aware that feeders are out to try and get the Government out of the Northstar.

Mr. **BAKER**. Well, I am aware of the request for proposals that came out of the BIA this summer. To be honest with you, when we looked at the proposal, they were complicated and difficult to bid on from a carrier's point of view. They included areas that were other than water transportation. For instance, part of the requirement was that we had to provide plumbing services for villages and we didn't have any experience in bidding on that kind of thing, and we did not bid. But we are aware of it, yes.

Senator **STEVENS**. That is a unique service, and I have personally been opposed to retiring the Northstar until we find a way to provide the service that is a very complicated pattern of service associated with the Northstar. But I just wondered. You don't contemplate that providing the kind of service that Alaska Aleutian would interface with APL. Have you tried to do that?

Mr. **BAKER**. Well, we have made the Aleut Alaska Corp. a proposal that is very similar to APL's proposal. It would connect with our service in the way that we provide service down the chain, but we haven't made any headway in those discussions. They have been unwilling to talk to us about it because of their agreements with APL.

Senator **STEVENS**. Well, I will have some additional questions, Mr. Chairman.

I wish we had more time, really. I'm not being critical, Mr. Chairman, but I wish we had more time to have some of the proposals I have seen for expansion of the Aleutian area brought forward to the committee so that the committee would understand the worries we have. We see now three more ports being, in effect, subsidized by the State to build onshore facilities that would be interfaced with the total OCS development up north of the Navarin Basin and Norton Sound and Bristol Bay, and that whole area, plus the development of those ports that are associated with the developments in the Pribilof Islands, and they are completely dependent upon the interconnections of service to the South 48.

We don't see that coming forth. And I'll tell you frankly, when I saw this APL/Aleut suggestion it did seem to provide the thing that many of us have talked about, and that is a connection to the 48 that would reduce freight rates and would increase frequency of service. Sand Point, St. George, and Cold Bay are scheduled for fast increases in freight, and I have not seen any indication that the existing providers of freight service are willing to come forward and meet that increased demand and interface with an intra-Alaska carrier to provide services to smaller points along that way.

Maybe as a result of this hearing we might see some further discussions of that, but I do think that it is absolutely necessary that the Senate realize that changes are going on in the Aleutian chain. I foresee, before the end of this decade, that we will be harvesting with American bottoms more than half of the fish that is currently being harvested by the Japanese and the Russians in that area, and that will be in excess of 1½ million metric tons. And at current landings in the vicinity of 100,000 tons, which has been testified to, and that exceeds the total landings of the whole west coast for wet fish. No one is comprehending the size and magnitude of this problem, and I hope that the Senate realizes it before it goes.

I would be willing to bet that, God willing, the Alaskans and the Washingtonians and the Hawaiians, that the three of us are going to be sitting here at the table sometime and you're going to be asking for a waiver. You don't believe it, but you will be asking for a waiver before this decade is over. So I hope you don't make a record that prevents us giving it to you, too. And I'm serious about that.

The volume of this trade cannot be met in the foreseeable future by domestically constructed vessels and vessels that are not operating in the foreign trade, and that is why this hearing has been scheduled at my request and I really believe you will all be back asking Congress to do what APL is asking us to do right now, so I hope as we rattle these cages, we don't rattle them too loud. And I'm sincere about that, believe me.

Thank you, Mr. Chairman.

Senator GORTON. Thank you, Senator Stevens.

Senator Inouye?

Senator INOUYE. Thank you. One of the major arguments made by the proponents of this measure is that all they are asking for is the same treatment that the State of Hawaii gets and the Commonwealth of Puerto Rico is receiving. Is there any validity to that argument?

Mr. **Hiltzheimer**. Well, Senator Inouye, I'm not an expert on the history of the law involving the waivers in both Hawaii and Puerto Rico. I am aware that for some reasons, perhaps labor reasons and other reasons, some waiver was granted to several carriers in Hawaii, some who are in service today and some who are not, and that perhaps a small amount of domestic cargo may move from the east coast of the United States to Hawaii by a carrier that is en route to Asia. Another carrier from the Gulf operates with calls at Hawaii in foreign commerce, but it is strictly foreign commerce carriers.

I am not aware that any domestic cargo moves to Puerto Rico on a subsidized carrier. We are concerned because nonsubsidized transportation represents all of the transportation in Alaska today. We do not make very good returns on our investment. In fact, some years we make no return.

In 1978 and 1979, Sea-Land didn't make any return and we have depreciated assets. We are faced with building new assets, and I understand what Senator Stevens is saying, that if we are going to have adequate domestic transportation service in the future, maybe there will have to be a new look at the law as to what the requirements are. But the fact remains that those carriers that are there today are private enterprise carriers operating without a subsidy and they have for a number of years. And to propose that a large, powerful, subsidized company come in and add service to a specific area, and it is a remote area but an important area of Alaska, which is difficult to serve without high cost, but to propose that a carrier who can stop by there en route in his foreign commerce be allowed to commence this service with subsidy, really is the issue before this committee. And from a nonsubsidized view, it would demoralize, if not destroy, any future investment plans from the nonsubsidized group because the cargo today is not that large. It is a scattered, shotgun type of operation. It involves large exports in the fishing season, but the day to day business to these points we're talking about is quite small. In fact, in 2 weeks you couldn't get a trailerload, one trailerload from Seattle to some of these points. It is a difficult area to serve, and I think the carriers that are in it, in the trade, do a pretty good job. Although, I would have to admit that if I lived out in western Alaska, I would want better service. And we're just suggesting that to subsidize it, you may create a worse problem of service capability than you will be solving.

[The following information was subsequently received for the record:]

In response to the question of why there is a difference between the State of Alaska and State of Hawaii with respect to the service by subsidized carriers, it is necessary to look into the history of the Statehood Bills.

When the Merchant Marine Act of 1936 was passed, vessels built with construction differential subsidy were prohibited from operating in the domestic trade. "It shall be unlawful to operate any vessel for the construction of which any subsidy has been paid pursuant to this title other than . . . on a voyage in foreign trade on which the vessel may stop at an *island possession or island territory* of the United States. . . ." (Emphasis added). Pub. L. No. 74, Ch. 858, § 506, 49 Stat. 1999 (1936).

Because of the Act's focus on islands, Hawaii was already considered exempt prior to statehood. When Hawaii became a State, the language in Section 506 was amended to read: ". . . may stop at the State of Hawaii, or other island possession or island territory of the U.S. . . ."

The legislative history of the Hawaii Statehood Act clearly documents this interpretation. As the Senate Report indicates,

"Section 18 concerns maritime matters . . . Subsection b makes three minor changes in the Merchant Marine Act. That Act provides that ships which receive operating or construction subsidies from the United States may call at island territories on voyages in foreign trade. *Under the existing law such ships do call at Hawaii and it is intended that such calls may continue without prejudice to the carriers' subsidies.*" S. Rep. No. 80, 86th Cong., 1st Sess., *reprinted in* [1959] U.S. CODE CONG. & AD. NEWS 1346, 1366.

Hawaii's exemption continued upon its admission to statehood because shipping played such a crucial role in the Hawaiian economy. The following passage taken from congressional debate during the consideration of Hawaii's admission to the union illustrates this point:

"[H]awaii's economy is based principally on shipping, which cannot be comparable to shipping as it affects the various states of the union, because various other means of transportation are to be had. But, in Hawaii it is strictly a shipping proposition . . . Hawaii is wholly dependent on the sealanes, her economy rests upon what traffic she can maintain via the sea. Not only that, but each one of those islands is separated by the high seas." 105 CONG. REC. 3904, 4009 (1959).

Alaska has never been considered as non-contiguous and was never considered within the exception of 506 or other like statutes.

At time of statehood, Hawaii was served in part by subsidized shipping. Alaska was not. Alaska has been served continuously by non-subsidized vessels going back to Alaska Steamship Lines, Coastwise Lines, and now Sea-Land and TOTE. The matter was considered in the debates on the floor. *See* 105 CONG. REC. 3871 (1959).

The problem of shipping to Alaska was considered at the time of the Alaska Statehood Act, as is clear from the required amendment to the Jones Act.

When Alaska was admitted to the union, there were no corresponding amendments to the 1936 Merchant Marine Act as occurred with Hawaii. Alaska's Statehood Act, Pub. L. No. 85-508, § 927(a), 72 Stat. 351 (1958), did, however, amend the Jones Act, 46 U.S.C. 883, so as to end its formerly discriminatory impact on Alaska. 104 CONG. REC. 12193 (1958).

The Statehood Act's amendment consisted of allowing Alaska to take advantage of Canadian rail and water services which the coastwise laws had previously excluded it from doing. The amended version of the Jones Act, which includes Alaska within the exception to the coastwise laws, reads as follows:

"[T]hat this section shall not apply to merchandise transported between points within the continental United States, including Alaska, over through routes heretofore or hereafter recognized by the Interstate Commerce Commission for which routes rate tariffs have been or shall hereafter be filed with said Commission when such routes are in part over Canadian rail lines and their own or connecting water facilities. . . ." 46 U.S.C. § 883.

In sum, the omission of Alaska from the exceptions carved out in § 1156 and § 1175(a) of the Merchant Marine Act, 1936 was the product of deliberate judgment as can be inferred from a combined reading of the respective legislative histories of the Merchant Marine Act, 1936 and the Hawaii Statehood Act.

Senator INOUYE. You are a nonsubsidized carrier?

Mr. HILTZHEIMER. Yes, sir.

Senator STEVENS. You don't receive any ODS or CDS?

Mr. HILTZHEIMER. That's correct.

Senator INOUYE. Are you also involved in the foreign trade?

Mr. HILTZHEIMER. Yes, sir.

Senator INOUYE. And you do so without subsidy?

Mr. HILTZHEIMER. Yes, sir.

Senator INOUYE. Are you experiencing any returns from that operation?

Mr. HILTZHEIMER. Never enough, but yes, sir, we are receiving some returns.

Senator INOUYE. Without subsidy?

Mr. HILTZHEIMER. Yes, sir.

Senator **Inouye**. I don't know whether you can answer these questions, but just for my personal interest, do you know how many people live on St. Paul Island?

Mr. **Hiltzheimer**. No, sir, I do not.

Senator **Inouye**. Is there anybody here who can tell me how many people live on St. Paul Island?

Voice. 650.

Senator **Inouye**. And on St. George Island?

Voice. 150. Excuse me; the total population is 700, and it's 550 on St. Paul and 150 on St. George.

Senator **Inouye**. And what sort of service is being provided to these islands now?

Voice. Very minimal. Four times a year, marine freight service.

Senator **Inouye**. Four times a year. We have an island in the State of Hawaii with more people than that, with no service. But that's my problem.

What would be the effect if APL and Aleut were permitted to operate as set forth in this bill, as far as your operation is concerned?

Mr. **Hiltzheimer**. Well, our evaluation of that, as I mentioned in my comments, is that—and a study corroborates this opinion, I believe; that APL's capability and capacity annually, and this depends of course on how much foreign commerce the vessel is carrying, but their potential capability is to carry all of the domestic commerce moving in and out of Dutch Harbor and associated with the geographic area right around Dutch Harbor that would be served by Aleut, except in the peak fishing period of the year, which would be export from the chain down to the South 48 and to Japan.

And we think the effect would be to devastate the existing service that is not subsidized, and discourage any plans for expansion by nonsubsidized carriers so that the burden for future service for that part of Alaska would fall very heavily on APL. And if they were successful in the foreign commerce to the point where they almost filled their capacity, then I would question whether or not you have done a great injustice to the service capability of western Alaska.

Senator **Inouye**. Thank you very much, Senator Gorton.

Senator **Gorton**. Thank you. We will have additional questions that will be submitted to you in writing.

[The statement follows:]

STATEMENT OF CHARLES I. HILTZHEIMER, CHAIRMAN AND CHIEF EXECUTIVE OFFICER, SEA-LAND INDUSTRIES, INC.

I am Charles I. Hiltzheimer, Chairman and Chief Executive Officer, Sea-Land Industries, Inc. I am accompanied by J. A. Baker, Alaska Division Executive Vice President, Sea-Land Service, Inc., our nonsubsidized U.S.-flag liner affiliate.

Mr. Chairman and members of the Subcommittee, we welcome this opportunity to present testimony in opposition to S. 1682 and the proposal to allow subsidized foreign commerce carriers into the domestic Alaska trade.

We believe S. 1682 would violate both the spirit and letter of the Merchant Marine Act of 1936, and would unquestionably jeopardize the continued viability of existing services provided by nonsubsidized companies to remote portions of Alaska.

Sea-Land is not opposed to allowing new competitors to engage in domestic transportation service to Alaska. But the proposal to allow subsidized entrants to the trade under S. 1682 is biased against nonsubsidized carriers. APL, or any other subsidized carrier, should not be given legislative permission to enter the domestic Alaska trade while retaining federal subsidies.

If the Congress determines that additional domestic service is warranted, then Sea-Land proposes that the 1936 Act be amended to require complete repayment of CDS and termination of ODS contracts as a precondition for entry into domestic trades.

Sea-Land Service is proud to have initiated the first year-round service in Alaska's history to Anchorage. Sea-Land has provided both reliable and frequent containerized transport in the domestic Alaska trade without government subsidy since May 14, 1964. Sea-Land's operations to Anchorage began just a few weeks after the earthquake that devastated the city. Some of the first cargoes were relief supplies.

As general manager of Sea-Land's Alaska division at the time, I was privileged to have been on the bridge of the Anchorage when in December, 1964 that containership made her way, unescorted, through ice-clogged Cook Inlet. That marked the first passage of a deep-draft vessel unaided through Alaska's heavy winter ice.

The benefits of regular containerized transport now extend to all areas of Alaska served by road and rail, as well as port calls in more remote areas of the vast state. All of the ocean carriers in this intensely competitive domestic trade are private enterprise, nonsubsidized entities.

During the 17 years of operation, Sea-Land has invested in excess of $100 million in the Alaska trade. Our 3 vessel service provides a capacity of 740 35′ and 40′ containers weekly between Seattle, Anchorage, and Kodiak, Alaska. A fourth Sea-Land vessel, the Aleutian Developer, provides service to the Aleutian peninsula ports, including Dutch Harbor, on Unalaska Island on a biweekly basis.

Sea-Land consistently provides a premium service reaching the vast majority of Alaska's citizens. During 1980, Sea-Land operated 104 linehaul voyages between Seattle, Washington and Alaska. Those voyages produced $84.1 million of operating revenue. After consecutive annual losses in Alaska for 1978 and 1979, Sea-Land earned a modest profit of $2.4 million in 1980.

Such marginal results are particularly important to the Subcommittee's consideration of allowing subsidized foreign commerce liner carriers, receiving hundreds of millions of dollars in federal operating subsidies each year, to enter the domestic Alaska trade. Those heavily subsidized carriers, once permitted to carry Alaska's domestic commerce, would destroy the existing system of nonsubsidized competition in the trade.

Newspapers not long ago noted that Vice President Bush, as leader of the Administration's Task Force on Regulatory Relief, had announced that elimination of restrictive trade route provisions for subsidized U.S. ocean carriers was on the list of changes to be undertaken in the next few months. Removal of the geographic limits on subsidized carriers, could lead to several of the eight subsidized companies entering the domestic Alaska trade on an unfair basis if S. 1682 were enacted.

SUBSIDIZED SERVICE

The main proponent of this amendment is American President Lines, Ltd., a major U.S. subsidized liner carrier that received $37.0 million in federal operating subsidy during 1980 and a total of about $900 million since the inception of the subsidy program. Contrary to contentions that APL would pay back subsidy if permitted to add domestic Alaska cargoes to its transpacific sailings, Appendix One shows that APL would continue to receive about two million dollars per ship per year in ODS and CDS benefits, in addition to the millions of dollars of domestic revenue they would take from nonsubsidized carriers in the trade.

It is therefore easy to understand why American President Lines seeks enactment of S. 1682. APL, and any of the other subsidized liner carriers that will probably be released from their trade route restrictions in the next year or so, would retain almost all of their foreign commerce subsidies while adding domestic revenues on the same voyages with little incremental cost.

THREAT TO NONSUBSIDIZED SERVICES

APL proposes to enter the Alaska domestic market, subsidized by the government, and provide containership service on commodities destined to Western Alaska, a remote but important area that contains about 10 percent of the State's population. This same area is today served by six companies without benefit of federal subsidies. Their operations are reflective of private enterprise dedication to provide service to remote areas at high risk and low margin.

An independent study for the State of Alaska notes that APL's proposed service would provide APL the capability to capture all inbound and outbound domestic volume, except in the peak season of the year. This would undoubtedly result in the reduction and/or extinction of some nonsubsidized service, thereby actually creating a serious deficiency of service during peak periods when the fishing industry's transportation needs are most critical.

STATEHOOD ACT OF ALASKA

The Statehood Act of Alaska in 1959 intentionally precluded subsidized ocean carriers from service in Alaska's domestic trade. Facts in the case of Hawaii were quite different. We understand that certain labor problems and a desire to grandfather then existing service prompted inclusion of a waiver privilege in Hawaii.

Although there is a waiver provision in the law, we understand that very little domestic cargo is transported to Hawaii by vessels receiving subsidy and no such subsidized carriage occurs to Puerto Rico. It appears that the primary activity of subsidized vessels calling at Hawaii is the export and import of foreign commerce cargoes, not domestic. APL is already engaged in subsidized transport of Alaska exports from Dutch Harbor. There would appear to be little practical effect were the subsidy waiver provision to be repealed for Hawaii and Puerto Rico.

ALEUT CORP. INTERCHANGE AGREEMENT

The Aleut Corporation of the Aleutian Island region of Alaska has other commercial options available to it than solely engaging in ocean transport with subsidized carriers such as American President Lines. On September 1, 1981, my colleague, Mr. Baker, extended a written offer to Mr. Agafon Krukoff proposing a transportation arrangement with Sea-Land. Mr. Krukoff has declined our offer.

I wish to affirm for the record of the hearing today that Sea-Land remains willing to negotiate an agreement with Mr. Krukoff and the Aleut Corporation for feeder vessel operations in the Aleutian Chain.

FAIR ALTERNATIVE

Instead of the subsidy aspects of S. 1682, we respectfully offer a substitute amendment for consideration by the Subcommittee. The substitute amendment would permit entry to the domestic Alaska trade by additional carriers on a fair basis of nonsubsidized competition as presently exists in the trade.

The substitute set forth as Appendix Two would grant the subsidized carriers, including APL, the opportunity to enter the domestic Alaska trade upon meeting two requirements; first, voluntary carrier termination of its operating differential subsidy payments; second, complete repayment of the total unamortized construction differential subsidy for the ships that would transport the domestic Alaska cargoes.

This substitute amendment would allow APL to start its proposed domestic service on a fair and evenhanded competitive basis with nonsubsidized carriers. The Aleut Corporation could contract with APL and any other nonsubsidized carriers in the trade. Bureaucratic audits of federal subsidy monies that would be used under S. 1682 could be avoided. All carriers in the domestic trade would be competing on a nonsubsidized basis. APL would also help close the federal budget deficit by operating in the foreign commerce without millions in federal operating subsidies, as Sea-Land Service, Inc. does.

I needn't remind this Subcommittee of the extreme pressure on the Congress and our nation to reduce and eliminate unnecessary expenditures of government funds. Our substitute amendment would create an incentive for a reduction of the approximately $300 million in O.D.S. payments to U.S. liner carriers. It would maintain fair, nonsubsidized competition in the domestic Alaska trade. That would clearly be preferable to penalizing nonsubsidized carriers for having avoided federal subsidies.

We urge the Subcommittee to reject S. 1682. It would be an unwise and damaging amendment of the law. We offer our substitute amendment as an acceptable and fair alternative.

APPENDIX 1

PURPORTED A.P.L. SUBSIDY PAY-BACK

The following analysis is an illustration relating to the minor reductions in federal subsidy associated with A.P.L.'s request to amend the Merchant Marine Act of 1936 to permit their subsidized entry to the nonsubsidized, domestic Alaska trade.

This analysis is based upon the Act's present provisions applicable if U.S.-flag vessels, built with construction differental subsidy (CDS) and operated under an operating differential subsidy (ODS) contract are permitted to simultaneously engage in both foreign and domestic commerce.

1. CDS

Section 506 of the 1936 Merchant Marine Act requires a pay back annually of "that portion of one twenty-fifth of the construction differential subsidy paid for such vessel as the gross revenue derived from the domestic trade bears to the gross revenue derived from the entire voyages completed during the preceding year."

2. ODS

Section 605 of that Act states that if an ODS vessel earns any gross revenues on the carriage of mail, passengers or cargo in the domestic trade, "the subsidy amount for the entire voyage shall be reduced by an amount which bears the same ratio to the subsidy otherwise payable as such gross revenue bears to the gross revenue derived from the entire voyage."

If APL were to be permitted use of CDS/ODS vessels in the Alaska trade in the manner they seek, these provisions would be applied as illustrated in the following examples:

CDS

The amount of CDS paid at construction on the current APL fleet averages about $10m per vessel. This includes original construction and subsequent conversion subsidies. One twenty-fifth of this amount is $400,000.

Assuming APL's gross annual revenue from foreign and Alaska commerce would be $36m per vessel (1200 containers per round trip voyage; $2,500 revenue per container movement; 12 round trip voyages per year).

Further assume the domestic (Alaska) annual revenue is $2.4m (100 containers per round trip voyage; $2,000 per container; 12 round trip voyages completed).

Since $2.4 is 6.8 percent of $36m, the amount of CDS pay back required would be 6.8 percent of $400,000 or only about $27,200 for the entire year. Thus, APL would retain the benefit of about $400,000 per year in construction subsidy.

ODS

Assuming the same revenue numbers as are outlined above, the reduction in ODS payable would be 6.8 percent of $1.6m which is the average annual ODS payable for each of APL's vessels, or a total of only $108,800 for the entire year. So, APL would receive about $1.5m of operating subsidy per vessel even after the modest reduction for domestic carriage.

Thus, the total CDS pay back and ODS revenue reduction annually per vessel under the circumstances outlined above is only about $136,000. APL would still receive the benefit of about two million dollars per vessel per year in CDS and ODS.

APPENDIX 2

A bill to revise the Merchant Marine Act, 1936

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled, That this Act may be cited as the "Alaska Liner Service Improvement Act of 1981."

SEC. 2. Title V of the Merchant Marine Act, 1936 (46 U.S.C. 1151 et seq.) is amended by adding the following Section thereto:

"SEC. 512. (a) Notwithstanding any other provision in this Title, an owner of a liner vessel for which a construction-differential subsidy has been paid may operate that vessel without restriction in the noncontiguous domestic trade between ports on the Pacific Coast of the contiguous United States and Alaska if the owner has perviously made a total repayment of the unamortized construction-differential subsidy with interest to the Secretary of Transportation.

(b) For purposes of this Section, total repayment of the unamortized construction-differential subsidy means the paying back of the entire sum, with interest, of the portion of the disbursed construction-differential subsidy attributable to the remaining statutory life of the vessel. The interest payable on the unamortized construction-differential subsidy shall be computed from the day of disbursement of each construction-differential subsidy payment made through the date the construction-differential subsidy repayment is entirely received. The rate of interest shall be equal to that rate applicable to financing under Title XI of this Act effective on the day of disbursement of each construction-differential subsidy payment made during the vessel's period of construction."

SEC. 3. Title VI of the Merchant Marine Act, 1936 (46 U.S.C. 1171 et seq.) is amended by adding the following Section thereto:

"SEC. 615. Any operator receiving operating differential subsidy funds for the operation of liner vessels may elect to terminate its operating differential subsidy contracts with all attendant statutory and contractual restrictions for the purpose of operating one or more such vessels in the noncontiguous domestic trade between ports on the Pacific Coast of the contiguous United States and Alaska."

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. It has been repeatedly stated that approval of the A.P.L. proposal would make existing nonsubsidized carriers reluctant to commit additional capital in the face of a subsidized competitor.

Exactly how would it affect your current growth plans?

Answer. Presently, there is a limited volume of cargo moved from Seattle to Dutch Harbor, to intermediate points, and points beyond in areas surrounding Dutch Harbor. The disincentive for existing nonsubsidized carriers to commit additional capital for new or existing services would be quite evident:

A. A new subsidized service would divert cargo moving on existing nonsubsidized carriers. The nonsubsidized carriers rely on northbound revenues in order to keep rates on southbound seafood shipments at an economical level.

B. A.P.L./Aleut's proposal indicates that their rates would be 30 percent lower than those of the existing nonsubsidized carriers. Such a reduction of rates would only be possible under the subsidized service proposed by A.P.L. Under the subsidy formula, A.P.L. would retain a high level of federal subsidy on each of the ships that would be employed in the domestic Alaska trade. With reduced domestic rates, A.P.L. would actually retain proportionately more subsidy.

C. As existing nonsubsidized carriers would lose northbound cargoes as well as southbound cargoes due to the lower subsidized rate levels that would be offered by A.P.L., the nonsubsidized carriers would be forced to reduce their services and raise rates in an attempt to remain financially viable. Obviously, some of the nonsubsidized carriers would be driven out of business under such circumstances.

Thus, authorization of a subsidized competitor's entry to the domestic Alaska trade would be a strong disincentive to new capital investment, whether for upkeep or growth.

Question. The A.P.L. proposal has been supported by some on the analogy that Hawaii may be served on a subsidized foreign trade voyage under an exception to the Act adopted with enactment in 1936. Yet, Hawaii was then served by one liner and one barge operator providing service to 800,000 people. Matson held a 90 percent market share. In Dutch Harbor today more than half a dozen operators compete to serve 55,000, and no one holds a dominant market share.

Do you believe the analogy has any value?

Answer. The analogy is not valid in the case of the domestic Alaska trade.

A. Hawaii was subjected to serious labor problems in the closely-related shipping, pineapple and sugar industries; because domestic steamer service was unavailable, subsidized carriers were allowed to enter the Hawaii trade on a limited basis.

B. Alaska has never had to resort to asking for added ocean carrier service on an emergency basis since nonsubsidized carriers have provided adequate service. Nonsubsidized carriers now serving Dutch Harbor *do have* sufficient available capacity to support all requirements for northbound cargo.

The 55,000 population referred to in the question is not entirely relevant to the area of service. The cited population resides over widespread geography covering about 1,200 miles between Kodiak and Golovin. Over 700 miles of this area is closed to navigation six months of the year by ice. Many of the northern, larger villages are served four or five times per season to provide their annual requirements.

In addition, Hawaii is served by two carriers that are subsidized. However, U.S. Lines doesn't receive operating subsidy in its Pacific Ocean service. Lykes Brothers Steamship Company receives operating subsidy, but provides basically import/export service with Hawaii, not domestic transport.

Question. If A.P.L. successfully competes for northbound cargo leaving Seattle, thereby cutting into the already deficient amount of cargo available to nonsubsidized carriers, won't the nonsubsidized carriers have to raise rates on southbound cargoes to cover the costs of the round-trip?

Answer. The question begins with a misleading implication in the words "If A.P.L. successfully competes . . ." A.P.L. would continue to receive large subsidies approximating two million dollars per ship per year. Under such subsidized circumstances, there is little question that A.P.L. would be a successful competitor.

As northbound cargoes were lost to the subsidized A.P.L. service by existing carriers, rate structures would have to reflect rising unit costs. The northbound cargoes are larger in volume than southbound and, therefore, northbound revenues help to maintain southbound rates at an economical level. Entry of A.P.L. on a subsidized basis would result in less cargo for the nonsubsidized carriers and a likely outcome would be higher southbound rates to attempt to meet higher costs. See also the response to question one.

Question. If A.P.L. provides predominantly northbound service to Dutch Harbor, will it be moving sufficient cargo to underwrite the costs of the Aleut Alaska feeder service?

Answer. As our testimony demonstrated, A.P.L.'s financial position would include a large subsidy from the government of about two million dollars per ship per year. The government subsidy, intended for liner service in the foreign commerce of the United States, would provide A.P.L. added monies in the millions of dollars per year that A.P.L. could use to subsidize the Aleut Alaska feeder service.

Question. Were A.P.L. to successfully compete for cargo to and from Dutch Harbor, wouldn't the impact on the unsubsidized carriers be compounded in the sense that not only would they attract cargo away, but it would be the higher valued container cargo?

Answer. Yes. A.P.L. would not generate any new cargo in this domestic trade, but would selectively divert the most attractive cargoes from the nonsubsidized carriers. Such a diversion would adversely impact all the nonsubsidized carriers, and might destroy some of them. A.P.L.'s subsidized rates would be 30 percent lower and the existing nonsubsidized carriers cannot compete against such a subsidy. In time, as A.P.L. drove competition out of the trade, rate level would likely be increased. It would be possible for A.P.L. to keep its subsidized rates depressed until it had driven all competitors out of the trade.

As indicated in our testimony of October 16, 1981, Appendix One: A.P.L.'s subsidy payments from the government would be reduced by a modest amount of about $136,000 on each vessel used in the domestic trade. That reduction of subsidy is considerably less than the interest on one small vessel belonging to an existing nonsubsidized carrier.

The cost of moving the less advantageous oversize and non-containerizable cargoes to Alaska with the existing nonsubsidized carriers would increase because they would be denied the mix of containerized cargoes in the effort to maximize their nonsubsidized revenues.

Question. What are the advantages of the linehaul and feeder service concept of transportation for Western Alaska?

Answer. The advantage of minimizing unit costs is not unique to ocean transportation. It is the same principle that underlies what passenger airlines refer to as the "hub and spoke" structure of transport service. It is the same economy of scale that applies to unit trains for railroads and "linehaul" operations of motor carriers. Sea-Land Service, Inc. introduced this method of operation to container shipping during the 1960's. Sea-Land uses the technique in the Alaska trade, with Kodiak City serving as the central terminal from which feeder vessel operations connect Seldovia, Cordova, all processing points around Kodiak Island, South Peninsula points (Chignik, King Cove, Sand Point, False Pass and Squaw Harbor), Dutch Harbor, Bristol Bay and Bering Sea points. Linehaul vessels serve Kodiak at least once a week and twice a week in peak periods.

The advantage of the larger linehaul vessel is lower unit, or per container, costs over the portion of the cargo movement where the larger vessels can be employed at a high, efficient level of utilization. The advantage of smaller feeder vessels is minimal transport cost over the portion of the cargo movement where low volume precludes efficient use of larger linehaul vessels. This beneficial combination has been used in the provision of ocean transport service to Western Alaska for years.

Question. Couldn't it be provided by existing nonsubsidized carriers?

Answer. As explained in answer six, this technique of transport operations is already being used by the nonsubsidized carriers. Such activity could add the Aleut vessels to feeder activities in Western Alaska and Sea-Land has offered to discuss initiation of such operations with the Aleut Alaska company.

While Sea-Land has not yet announced its feeder vessel plans for 1982, it will offer more capacity in feeder services. All nonsubsidized carriers are expected to expand their services in 1982 to meet the needs of the trade. Obviously, these plans would necessarily be curtailed if subsidized carriers were admitted to the trade.

Question. Do the nonsubsidized operators have excess capacity in all weeks other than the peak salmon season?

Answer. Yes. In 1980, the nonsubsidized carriers experienced a load factor of only 43% during the full year of operations in the area A.P.L. cites in its proposal. This experience is detailed in the Snavely, King and Associates, Inc. report submitted at the Subcommittee hearing on October 16, 1981.

Question. Will A.P.L. help alleviate the problem during that peak season?

Answer. Apparently not, but a detailed assessment is difficult due to the limited facts that A.P.L. has made available. A.P.L. has not addressed the number of containers that would be available for southbound cargo, or the number of refrigerated containers that would be kept in inventory at Dutch Harbor. A.P.L. has been operating at high levels of utilization eastbound from the Far East and it is therefore questionable whether there would be any vessel capacity available for southbound domestic cargoes from Alaska.

Peak season production occurs in a period of only two to three weeks, and A.P.L.'s transpacific schedule would allow one or possibly two linehaul vessel calls at Dutch Harbor during that brief period. If A.P.L.'s vessels continued to sail full from Japan, there would be no available container spaces for southbound Alaska cargoes.

Question. Is the problem at all related to the practices, operation, or capacity for the seafood processors?

Answer. Yes, it is. Since the 200-mile limit bill was enacted in 1976, practices, operations, and plant capacity have changed dramatically in the seafood industry.

A. Practices—specie seasons are shorter due to the additional vessels in the fishing fleet.

B. Operations—there are now more plants added each year in the area, but their storage capacities have not been increased.

C. Capacity—additional plants generate larger production in a shorter period.

Processors produce to capacity and fill the transportation companies' refrigerated equipment. Saturation of refrigerated capacity limits fish receipts from fishing vessels. It would be helpful if fishing seasons could be spaced over a longer time frame with an average daily catch system, or some such arrangement, to allow plants to operate more efficiently and the transportation system to accommodate the production on a steady basis. That would need to relate to specie seasons.

Question. Are a sufficient portion of the containers A.P.L. intends to provide refrigerated and thus suitable to transportation of seafood?

Answer. As noted in Answer 9, we are unable to respond to this question with complete certainty. A.P.L. has not indicated how many containers they would make available for the domestic Alaska trade. A.P.L. has not disclosed the number of refrigerated containers they would be able to divert from their regular subsidized foreign commerce service, nor the number that would be kept in inventory at Dutch Harbor, nor the ratio of refrigerated containers to dry van containers.

Question. What forms of government benefits do the "nonsubsidized" carriers receive? (e.g. loan guarantees, use of capital construction funds, government contracts such as mail or military, purchase of government-owned vessels at below market value.)

Answer. There are no government benefits extended solely to nonsubsidized carriers. Both nonsubsidized and subsidized are eligible to participate in:

A. Loan Guarantees: Some nonsubsidized carriers other than Sea-Land have used Title XI loan guarantees. Title XI enables a vessel owner to obtain a lower interest rate on debt when constructing a new vessel in a U.S. shipyard.

B. Use of Capital Construction Funds: Nonsubsidized and subsidized carriers in the foreign, Great Lakes and noncontiguous trades may establish Capital Construction Funds to defer taxation of eligible earnings. The earnings are only eligible for deposit if the vessels were constructed in a U.S. shipyard and may only be withdrawn free of tax for construction of U.S.-flag vessels in U.S. shipyards, not foreign.

Some nonsubsidized carriers in the Alaska trade, other than Sea-Land, have used a C.C.F. as a tax deferral method.

C. Government Contracts: These contracts, as awarded at present, are on a competitive bid basis and most are at rate levels less than the nonsubsidized carriers' published commercial tariff rates. Thus, one could consider the nonsubsidized carriers as subsidizing the government by participation in these contracts at less than commercial rate levels.

We are not aware of any programs through which the Government is authorized to sell vessels to private companies at below market value for subsequent operation in commercial service.

Senator GORTON. Our next witness is Mr. Sidney Campbell of Foss Launch & Tug Co.

STATEMENT OF SIDNEY CAMPBELL, CHAIRMAN OF THE BOARD, FOSS LAUNCH & TUG CO., ACCOMPANIED BY THEODORE McCULLOCH, VICE PRESIDENT AND GENERAL MANAGER, FOSS ALASKA LINES

Mr. CAMPBELL. Mr. Chairman, Senator Stevens, subcommittee staff and aides. I appreciate the opportunity to address this subcommitee on what we believe is a most vital matter for Alaska and the nonsubsidized water carriers which serve it.

I am Sid Campbell, chairman of the Foss companies, Foss Launch & Tug Co., Foss L&T Co., and Foss Alaska Lines, subsidiaries of the Dillingham Corp. With me today is Theo McCulloch, vice president and general manager of FAL.

I have submitted a written statement for the record of our position in opposition to the proposed amendment. This morning I would like to offer a very brief summary of our position and then with Mr. McCulloch try to answer any questions you might have.

FAL operates a tug and barge common carrier service exclusively in domestic commerce between the Pacific Northwest and points within the State of Alaska. Foss has been serving Alaska since 1925. All Foss vessels were built without subsidy and are operated without subsidy.

FAL provides three common carrier services in the Alaska trade. One in a year-round regularly scheduled service with a sailing every 3 weeks between Seattle, Wash. and points in the Aleutian Islands. Each voyage calls at Adak and at Unalaska/Dutch Harbor. Since January 1 we have also called at Akutan on almost every voyage. As cargo warrants, we call at the Alaskan Peninsula and Aleutian Island points, such as False Pass, King Cove, and Chignik. In addition, we call at the Kodiak Island points of Uyak and Uganik and mainland points of Seward and Cordova.

A second service of FAL operates to western Alaska from Seattle during the ice-free season. This is a regularly scheduled service, normally four sailings per season. Foss serves Dillingham, Bethel, and Nome directly on these voyages with other ports in the area being served by feeder operations of other carriers.

A third service of FAL operates weekly between Seattle and southeast Alaska, serving Ketchikan, Wrangell, Petersburg, Juneau, Sitka, and through transfer to the Alaska State Ferry System to Metlakatla, Haines, and Skagway and other smaller communities. We have track record of serving the smaller communities of Alaska, and we're proud of it.

In our time in Alaska we have witnessed and contributed to the growth and development of the State's economy. We have consistently worked to meet the increasing needs of the State for dependable water carrier service, whether the need is for regular yearround scheduled service, seasonable service or sporadic nonrecurring movements. We are willing and able to continue to do so as long as the existing competitive atmosphere in the domestic Alaska trade continues. And I emphasize this as it relates to the area we are discussing.

That competitive atmosphere has been good for the State. Competition has produced at least 14 carriers operating in the Alaska trade with as many as 6 or 7 serving the Unalaska/Dutch Harbor trade.

All of this is now seriously threatened by APL's proposal to remove the 45-year-old prohibition in the Merchant Marine Act against subsidized carrier operations in the domestic Alaska trade. We believe that if APL is permitted to enter the trade, existing competitive structure will be severely disrupted, if not virtually eliminated.

As far as our scheduled operations to western Alaska are concerned, we believe that we may have to reduce, if not discontinue them, if APL is permitted to enter the trade. We have carried in those services literally every type of commodity imaginable from container loads of perishables to construction equipment, mobile homes and a vast array of oversized and odd-sized cargo.

All in all, there is not that much cargo moving in the trade as of now, except for the southbound seasonal and historical spurts during the peak harvest periods of the fishing industry. Moreover, it is doubtful there would be any significant change in the amount of cargo moving, even if APL would enter the trade. There is no question that competition from subsidized carriers against nonsubsidized carriers is unfair. As the Snaveley study lays out in detail, paying back a minimal amount of subsidy would not eliminate a competitive advantage that APL would enjoy. APL, we understand, has said that because of the subsidy payback, it's service to Unalaska would not be subsidized. This is just not so. It would be performed with vessels which were built with construction subsidy, and on voyages in foreign commerce upon which APL is receiving an operating subsidy.

The irony is that this amendment is sought in the name of better service to Alaska, but as the study prepared for the Governor of Alaska concludes, this proposal would result in neither more nor significantly better service. We agree. It would just be a substitution of service by APL for service already provided by nonsubsidized carriers.

In conclusion, we at Foss believe that passage of this proposed special interest legislation would, within a short time, result in the limitation of or significant reductions in service to western Alaska on the part of Foss or other existing nonsubsidized carriers. This would be of no real advantage to the people of western Alaska. Over the long run we believe they would suffer reductions in quality and frequency of service and find themselves totally dependent on a carrier whose primary interest and concerns lie elsewhere.

Thank you.

Senator GORTON. Thank you, Mr. Campbell. You've expressed yourself very forcibly and eloquently, and in the interest of allowing the other witnesses to testify, my questions to you will be submitted in writing.

[The statement follows:]

STATEMENT OF SIDNEY D. CAMPBELL, CHAIRMAN OF THE BOARD, FOSS COMPANIES

Mr. Chairman, members of the subcommittee and staff, I appreciate the opportunity to address this Subcommittee and offer our views on what we believe is a most vital matter for Alaska and the nonsubsidized water carriers which serve it.

I am Sidney D. Campbell, Chairman of the Board of the Foss companies—Foss Launch & Tug Company, Inc., Foss L & T Co., and Foss Alaska Line, Inc. ("Foss Alaska") which are part of the Dillingham Maritime Group and subsidiaries of the

Dillingham Corporation. With me today is Theodore McCulloch, Vice President and General Manager of Foss Alaska.

OPERATIONS OF FOSS ALASKA

Foss Alaska operates as a common carrier by water exclusively in domestic commerce between the Pacific Northwest and points within the state of Alaska. Foss and its sister companies have been serving Alaska since 1925. All Foss vessels were built without subsidy and are operated without subsidy.

Foss Alaska provides three common carrier services in the Alaska trade. One is a year-round regularly scheduled service, with a sailing every three weeks, between Seattle, Washington, and points in the Aleutian Islands. Each voyage calls at Adak, primarily to transport goods and equipment under contract with the U.S. Navy, and at Unalaska/Dutch Harbor. Since January 1 of this year we have also called at Akutan on almost every voyage. As cargo warrants on those voyages, we call at Alaskan Peninsula and Aleutian Islands points such as False Pass, King Cove, and Chignik. In addition, we call at the Kodiak Island points of Uyak and Uganik and mainland points of Seward and Cordova.

A second service of Foss Alaska operates to Western Alaska from Seattle during the ice-free season. This is a regularly scheduled service with normally four sailings per annual season. Foss Alaska serves Dillingham, Bethel and Nome directly on these voyages with other ports in the area being served by feeder operations of other carriers.

A third service of Foss Alaska operates between Seattle and Southeast Alaska, serving Ketchikan, Wrangell, Petersburg, Juneau and Sitka, and, through transfer to the Alaska State Ferry System, to Metlakatla, Haines and Skagway and other smaller communities.

THE APL AMENDMENT AND POSITION OF FOSS ALASKA

We appear today in opposition to S. 1682 which by its terms would amend sections 506 and 605(a) of the Merchant Marine Act, 1936, by lifting the prohibition which has been in effect for 45 years against operation by subsidized carriers in the domestic Alaskan trade. Technically speaking, that bill would permit any subsidized carrier to serve the island of Unalaska. As a practical matter, however, the bill will benefit only one subsidized carrier, American President Lines ("APL"), which has been waging a long and expensive campaign to secure its enactment. Also as a practical matter, this special interest legislation would permit APL to penetrate to a far greater degree in the Alaskan trade than just service to Unalaska. APL would be able to participate in the transportation of cargo destined to or originating at many Alaskan ports by means of transhipment at Unalaska. In fact, clearly counting on passage of this bill, APL has entered into an agreement to provide a joint service with Aleut Alaska Shipping Company ("AleutAlaska") which will enable APL to participate in the carriage of cargo not only to and from ports on the island of Unalaska, but also ports on the island of Akutan, ports on Unimak and Umnak islands, ports on the Alaska peninsula, ports on Bristol Bay and ports on Kodiak Island. In fact, it clearly appears to be APL's ambition to gain access to as much of the domestic Alaskan trade as it can.

In this regard, it is important to consider that this bill does not represent the first effort by APL to enter the domestic Alaskan trade. In the last Congress, it made every effort to insert an amendment in the Maritime Omnibus Bill (which was before the House Merchant Marine and Fisheries Committee) that would have enabled subsidized carriers to serve all ports in the State of Alaska. That amendment, which was opposed by all non-subsidized Alaskan carriers including the Aleut Alaska Shipping Company, was considered by the Committee, was the subject of full subcommittee hearings, and was rejected.

ADVERSE EFFECT OF THE APL AMENDMENT

We urge that APL's latest attempt to amend the Merchant Marine Act be similarly rejected by this Subcommittee. If it is not, and APL is permitted to enter the domestic Alaskan trade, the unfair competitive advantage which it will have as a subsidized carrier will drive non-subsidized carriers out of the trade or at best force them to severely reduce their operations. That clearly will be the case with Foss Alaska's service to the Aleutian area.

Foss Alaska's service to the Aleutians has proven to be reliable in spite of having to operate in what is known as one of the most inclement bodies of water in the world, the North Pacific. In addition to providing container service, both dry and refrigerated vans, Foss Alaska's service offers the versatility of carrying roll-on roll-off cargo and large unwieldly, oversize shipments, which as a general rule cannot be carried on container vessels. Because of this versatility of its service and its proven reliability, Foss Alaska's service has been enthusiastically endorsed by its users, including the U.S. Navy. Even though this area is in the development stage, and therefore can only offer marginal economic support to a carrier, Foss Alaska has committed to provide and build the service without the benefit of subsidy.

However, if the proposed bill is enacted and APL is allowed to participate in the Unalaska/Dutch Harbor trade, Foss Alaska is convinced that it will be forced to modify or reduce its regularly scheduled commercial service to Aleutian ports. Foss Alaska simply cannot economically compete with a carrier which intends to provide its service in conjunction with subsidized transpacific operations that would incrementally price the proposed service.

This will have a very serious adverse impact on the Communities served by Foss Alaska and other similarly situated nonsubsidized carriers, in that it will affect the carriers' ability to continue to provide a year-round "all cargo" type of service. Without such a service, with the ability to serve all ports and shippers in the area and the ability to deliver all types of cargo on a regular basis, including in particular outsized cargoes, which for the most part cannot be carried on container vessels, the needs of a developing area such as Alaska could not be met. An example of this need for a regular, all-purpose service is shown by not only the cargo carried by Foss Alaska to Dutch Harbor for resident development but also by the fact that Foss Alaska has delivered to Dutch Harbor a heavy lift and structural steel for APL itself (proprietary cargo which APL could not handle only because of vessel limitations).

APL'S ARGUMENTS FOR SUPPORT OF ITS AMENDMENT ARE WITHOUT MERIT

APL has put forward several arguments to justify its intrusion into the domestic Alaskan trade. It claims that existing service is inadequate and too costly. According to APL, establishing a transshipment service will improve service time and frequency at lower rates and with fuel savings. It calls the prohibition of service to Alaska by subsidized carriers an "anomaly", because such carriers are permitted to serve Hawaii, Guam and Puerto Rico. None of these claims, however, holds up under examination.

Existing service is adequate

Existing service provided by non-subsidized carriers, while not perfect, is adequate to meet the needs of Western Alaska almost all of the time. In fact, a study by Snavely, King and Associates (which we understand is being submitted to the Subcommittee) shows that there well may be overtonnaging in the trade. That study reveals that overall, only 70 percent of the existing vessel capacity of the nonsubsidized carriers is utilized, and that there has been excess capacity of at least 15 percent in every month of the year. Certainly as the following table shows, Foss Alaska has had considerable excess capacity. In 1980, none of its voyages were loaded to their full TEU capacity.

Foss Alaska Line, 1980 Aleutian Islands, total capacity utilization

Voyage number	61–77
Capacity (TEU's)[1]	5,150
Northbound utilization (TEU's)[2]	2,671
Southbound utilization (TEU's)[2]	851

[1] Capacity varies from Summer, 340 TEU's (twenty foot container equivalent units) per voyage to Winter, 270 TEU's.

[2] In most instances the actual TEU's utilized were greater than as shown because included here as single TEU's are oversized shipments which could have taken up as many as 16 or more TEU's.

The only times that there has been a problem with service are the very brief peak harvest periods for the fishing industry.

The reasons for this problem are clear. First, the peak demand exists for only a few weeks. It simply has not been economically feasible for carriers to keep on hand all year enough equipment to satisfy a demand that lasts only a few weeks. Second, the size of each of these harvests is unpredictable. The greatest shortage of container space over the past several years has occurred in the king crab season. This year, however, the king crab harvest, in progress right now, has fallen below expected levels by between 30 million and 45 million pounds (approximately 50 percent short of projected harvest).

Based on the experience of the past several years, the domestic carriers, including Foss Alaska, arranged for the short-term lease of enough refrigerated containers to carry the anticipated crab harvest. Consequently, this year instead of a shortage of containers, there are now containers going unused in Western Alaska.

APL has pointed to the brief periods of shortage of containers which have occurred in the past as evidence that the needs of the area are not being adequately served by existing carriers. But the fact is that existing carriers have been able one way or another to ultimately move the traffic. For the rest of the year, the needs of the region have been and continue to be met by non-subsidized carriers. Furthermore, there is evidence that APL's proposed service would do little to solve this problem and in the long term would greatly cause a reduction in service.

APL does not need domestic authority to help meet the seasonal demand for service. There is nothing to prevent APL from using whatever capacity it has to alleviate any shortage of service by carrying Alaskan fish products to foriegn markets. APL is already doing this. The fact is that in the time of peak need for southbound service carrying fishery products, APL's vessels have been filled almost to capacity with other cargo in the foreign trade. Indeed, a recent independent study (dated September, 1981) prepared by the firm of Williams-Kuebelbech and Associates for the Governor of Alaska and the Alaska Department of transportation concludes that APL "could only handle a fraction of the outbound cargo at the peak of the season." (For the Subcommittee's ready reference a copy of that study is attached to my testimony as Appendix A.)[1]

In fact, APL's participation in the domestic Alaskan trade would offer little, if any, assistance to the Alaska fishing industry at the only time when it may need extra service.

Prohibition of subsidized carrier service in the Alaska trade has no relation to other domestic trades

APL has said that the exclusion of subsidized carriers from the domestic Alaskan trade is an "anomaly". APL also asserts that the same reasons that justified the exemption in Sections 506 and 605(a), which allows subsidized carriers to serve Hawaii apply to the Alaskan trade. Nothing could be further from the truth.

The need to subsidize the operations of U.S. flag carriers to enable them to compete with foreign carriers has long been. recognized. It is equally axiomatic that in the domestic trade, reserved exclusively for U.S. flag carriers, there is no need for a subsidy. Congress has never intended to allow a carrier which receives subsidy to engage in competition against unsubsidized fellow-Americans. Indeed, the discovery that recipients of subsidy under ocean mail contracts were competing against other Americans in the domestic trades was one of the key factors in Congress' enactment of the Merchant Marine Act, 1936.

In its consideration of that legislation the Senate specifically described subsidy as "a murderous economic weapon" when "*used against * * * American competitors* in a trade wherein vessels of foreign registry *may not engage.*" Senate Report No. 898, 74th Cong., 1st Sess., May 13, 1935, p. 14 (Emphasis in original). The Merchant Marine Act, 1936 thus was carefully designed to assist U.S. carriers to remain competitive in foreign trade against foreign competition, while at the same time insulating carriers in domestic trade from "murderous" competition from recipients of subsidy. The limited exceptions to the absolute prohibition of intermingling domestic and subsidized foreign operations were extended only where the domestic segment of an existing joint domestic foreign service was critical to the viability of competitive U.S. flag service in foreign trade. As Senator McNary from Oregon explained: "The purpose of these amendments [setting forth the exceptions] is to protect the trade routes that have been established between the Atlantic coast of the United States and the Orient. As you are aware, Japan has established regular direct freight service between Japan and the Orient to the Atlantic Coast of the United States. Therefore, it is most important that we meet this competition, and protect the American services which have been established in this trade." (Congressional Record, June 18, 1936, Page 9904).

In other words, the exception was permitted only where U.S. flag carriers depended on the domestic segment of an already established trade route to enable them to compete with foreign carriers on the foreign portion of that route.

The reasons APL has advanced for allowing its entry into the domestic Alaskan trade bear no resembalance to the reasons for allowing subsidized carriers to serve Hawaii on voyages in foreign trade. Adequacy of domestic service was simply not a factor. The Jones Act reservation of domestic trade to U.S. carriers was then and still is sufficient to assure that domestic service will be provided wherever there is enough demand for it. (For a more detailed analysis see the Review of the legislative History of Sections 506 and 605(a) which Foss Alaska had prepared and which is attached to my testimony as Appendix B.)[2]

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[1] Appendix A has been retained in the committee files.

These longstanding government policies have worked well in the domestic Western Alaska trade. Foss Alaska is but one of at least seven unsubsidized carriers, competing for that business. Foss Alaska, like most of these carriers, operates in no other trade. These carriers provide responsive service sensitive to the fluctuating needs of the region. Competition keeps rates at levels which are in line with the cost of providing service.

USING THE BENEFITS OF ITS FEDERAL SUBSIDY APL WOULD UNFAIRLY COMPETE WITH THE NONSUBSIDIZED ALASKAN CARRIERS

There can be little doubt that APL would use the advantage it enjoys from its subsidies as a "murderous weapon" against non-subsidized carriers. APL boasts that it will be able to provide faster service than existing carriers, at lower rates through its "incremental pricing". This is because its Seattle-Dutch Harbor service is only a small part of its transpacific service. The non-subsidized carriers must cover all of their costs and make a profit from service to Alaska alone. By contrast, APL need only cover the small additional marginal costs of carrying more cargo, plus any reduction in subsidy. There is no question that on that basis APL would experience lower costs than the non-subsidized carriers. Predicting the consequences of that requires little imagination. APL would be in a position to selectively cut rates on high revenue cargo, leaving the non-subsidized carriers to compete for the less attractive cargo. With less revenue available to cover their cost, some or all of these carriers would be forced to reduce service or discontinue operations altogether.

The partial payback of subsidy proposed by APL would not alter the fundamental unfairness of competition by a recipient of subsidy against its non-subsidized fellow American carriers. In fact, no formula can be devised which would counterbalance the unfair advantage a subsidized carrier would enjoy.

The Kramer study commissioned by APL has suggested that rates for cargo moving from Seattle to Dutch Harbor are unduly high. But it contained no suggestion that the level of existing carriers' rates are not justified by their costs of providing service, and it made no mention of the high degree of competition in the trade—a factor known to keep rates at reasonable levels. Curiously, the report compared the cost of moving a 14' x 70' mobile home to Dutch Harbor with the cost to move it to Juneau. The study failed to note, however, that it is twice as far from Seattle to Dutch Harbor as to Juneau, and that the waters are more treacerous. Moreover, no explanation is offered as to how APL would carry cargo of such dimension on its container ships. It would appear that one such mobile home would displace a minimum of four forty-foot containers. In any event, Foss Alaska can carry oversized cargo such as mobile homes and construction equipment far more easily and economically on its barges, which have roll-on, roll-off capability.

Nor is any mention made of what rate APL would charge for such service. It would have to cover the lost revenue from the containers plus heavy-lift and extra handling costs.

There is additional evidence to demonstrate that APL's subsidized operations would give it an unfair competitive advantage over non-subsidized carriers. There is a marked imbalance in the trade between Seattle and Western Alaska. From 1975 to 1979, on the average more than twice as much cargo moved north as moved south. The northbound cargo consists of practically everything Alaskans need to survive, from fuel and food to housing. It moves in a fairly consistent pattern from year to year, with smaller volumes moving during the winter months when weather is severe. By contrast, the vast bulk of southbound cargo is fish and fish products. For many carriers the revenue from this cargo determines whether or not they will show a profit for the year. The bulk of this cargo moves during the very brief peak periods of the harvest of the major types of seafood. The amount of the harvest fluctuates sharply from year to year, and with it, the carriers' chances for economic health.

While the Williams-Kuebelbeck report, mentioned above, found that in fact APL has no empty containers on its southbound movements returning from Japan, APL with its vessel capacities of 1,094 and 1,784 TEU's could nevertheless, if it chose, dominate the important southbound traffic in fish and fish products, severely limiting the chance for the non-subsidized operators to make enough money to survive if it chose to. It can corner the market for such cargo by undercutting the rates of non-subsidized carriers by just enough to attract the business. In other words, APL would be able to use the superior economic power it derives from subsidies to skim the cream off the southbound domestic trade. But it could do it only at the expense of the foreign cargo it is being paid a subsidy to carry!

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[2] Apendix B has been retained in the committee files.

APL could wield its competitive weapon in yet another way. Only last year, before it entered into its agreement to provide a joint service with APL, the Aleut Corporation's shipping company, like all domestic Alaskan carriers, vigorously opposed APL's effort to amend the 1936 Act to enable it to enter the domestic Alaskan trade. In a telegram to Senator Stevens and Congressman Young dated February 27, 1980, Agafon Krukoff, President of the Aleut Corporation, stated: "APL is large enough that it would potentially destroy the smaller freight service currently provided by Alaska Shipping Co., Western Pioneer, Foss and others. Allowing APL to step in and monopolize would be a crime to all Alaskans involved in the shipping business."—What caused Aleut Alaska to change its mind?

We understand APL has agreed to provide Aleut Alaska with a barge and sufficient containers to establish a feeder service. In addition, APL has promised to guarantee financing for acquisition of a tug by Aleut Alaska. We estimate the value of these incentives to be $800,000 annually. The money for these inducements and others from APL to Aleut-Alaska can only come from APL's heavily subsidized foreign operations. Obviously no non-subsidized carrier which relies on the Alaska trade to support its operations is in a position to make a similar offer to Aleut Alaska.

Within the past year, Foss Alaska has approached Aleut Alaska about establishing a non-exclusive transshipment service so that Aleut Alaska could concentrate on developing a feeder service. We were rejected out of hand, because, we were told, we could not provide the same level of assistance in equipment and fiancing as APL. Foss understands that SeaLand has made similar overtures to Aleut-Alaska, and also was similarly rejected.

APL/Aleut Alaska will not provide better service

Aleut Alaska has also stated that APL can provide faster linehaul service with its large subsidized vessels than can existing carriers in the trade. While APL clearly can offer faster transit time, this does not mean that a shipper will necessarily get faster service if APL can provide the linehaul segment. Under their proposed exclusive transshipment agreement, Aleut would be tied to APL's schedule. But if it did not have an anticompetitive agreement with APL which prevents it from doing so, Aleut Alaska could utilize the services of any and all existing carriers operating in the Seattle-Dutch Harbor trade, for its transshipment service. This would obviously be of greater benefit to the shipping public. For example under the agreement APL proposes bi-weekly northbound service. If a shipper needed service northbound for a shipment which was not ready until the day after APL's vessel had sailed, the 3½ day sailing time would be of little comfort to him: that shipment would have to wait for 14 days before beginning its "speedy" journey.

Any number of other carriers, although taking longer to cover the distance to Dutch Harbor, might have sailing schedules which would get the shipment to its destination sooner than it would by waiting for the next APL service. Indeed, if you look at the service provided by the non-subsidized carriers in 1980, you will find that they had a vessel calling at Dutch Harbor on the average of every 2 days during the peak summer season.

CONCLUSION

The amendment APL seeks will seriously impact upon both the domestic carrier and the Alaskan communities they serve.

APL, if allowed into the domestic Alaskan trade, would skim off important revenues which Foss Alaska and the other domestic carriers rely upon to provide year-round service to all western Alaskan markets. The net result of that skimming would be to force Foss Alaska and the other domestic carriers to discontinue or severely curtail their Alaskan operations. This in turn would mean Alaskan communities, particularly the smaller ones, would lose all or much of the water carrier services on which they are so dependent.

The irony in this is that there is no need in the trade to add subsidized carrier services.

The trade is extremely competitive—more so than any other offshore domestic trade.

For virtually the entire year the trade is over-tonnaged.

Existing carriers can and have handled traffic surges during the very short peak traffic periods and have committed to construct new tonnage, with their own funds, to meet future growth.

Foss Alaska and other existing carriers have invested substantial sums of their own money and dedicated themselves to building this trade. U.S. policy for the last 45 years has been to protect those services from the unfair competition of subsidized carriers whose domestic operations would be supported by CDS and ODS payments as well as the revenues generated on the major overseas portions of the voyages on which they would serve Alaska.

This policy has produced for the Alaskan trade by far the most competitive U.S. domestic offshore water carrier service of all such trades. APL has offered no valid reason to change that policy.

Thank you for permitting me to appear and testify before you.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. It has been repeatedly stated that approval of the APL proposal would make existing non-subsidized carriers reluctant to commit additional capital in the face of a subsidized competitor. Exactly how would it affect your current growth plans?

Answer. Because of the APL effort, we are presently unable to make any long term plans to expand service frequency or to increase our container fleet to accommodate cargo moving to or from Western Alaska. All that we can do is to try and meet peak or unusual demands on a one-time basis by chartering in equipment, as we have done in the current King Crab season.

Question. The APL proposal has been supported by some on the analogy that Hawaii may be served on a subsidized foreign trade voyage under an exception to the Act adopted with enactment in 1936. Yet, Hawaii was then served by one liner and one barge operator providing service to 800,000 people; Matson held a 90 percent market share. In Dutch Harbor today more than half a dozen operators compete to serve 55,000, and no one holds a dominant market share. Do you believe the analogy has any value?

Answer. The analogy has absolutely no value. The reasons for the exception as to Hawaii in the 1936 Act have no relevance whatever to the situation in Alaska. This is made crystal clear by the legislative history pertaining to that exception. This point is discussed in detail at pages 9–11 of the written statement of Sidney D. Campbell, Chairman of the Board of the Foss companies, previously submitted to the Subcommittee, and in the Review of the Legislative History of Sections 506 and 605(a) of the 1936 Act attached as Appendix B to that statement.

Question. If APL successfully competes for northbound cargo leaving Seattle, thereby cutting into the already deficient amount of cargo available to non-subsidized carriers, won't the non-subsidized carriers have to raise rates on southbound cargoes to cover the costs of the round trip?

Answer. If APL took a significant portion of the market northbound, it would probably be unrealistic for the non-subsidized carriers to try to raise rates enough to obtain adequate revenue; rather, they would probably simply have to abandon their service. As you know, the Williams-Kuebelbeck study prepared for Governor Hammond's office suggests that APL would capture literally all of the northbound traffic.

Question. If APL provides predominantly northbound service to Dutch Harbor, will it be moving sufficient cargo to underwrite the cost of the Aleut Alaska feeder service?

Answer. Not enough is known about the amount of capacity APL will dedicate to the service or, more importantly, what amount of feeder service cargo they would handle versus cargo that would terminate at Unalaska/Dutch Harbor. In our opinion, however, we believe that the answer to your question is "no," there would not be nearly enough revenue to underwrite an Aleut Alaska feeder service. Large volumes of northbound cargo available to the feeder service, as well as southbound cargo moving on the feeder service, must be assumed to even hope that the Aleut Alaska feeder service could survive.

Question. Were APL to successfully compete for cargo to and from Dutch Harbor, wouldn't the impact on the unsubsidized carriers be compounded in the sense that not only would they attract cargo away, but it would be the higher valued container cargo?

Answer. Yes. With its large container ships, it is our belief that APL would primarily attract the higher rated cargo in the trade, whether it was moving northbound or southbound. This certainly would compound the negative impact on the non-subsidized carriers as it would leave them with the lower rated cargo and oversized/overweighted cargo that APL chose not to handle. The point is in all likelihood moot, however, for as there is not that much cargo moving in the trade, particularly northbound, any significant inroad by APL would force the non-subsidized carriers to severely reduce or discontinue their operations.

Question. What are the advantages of the line-haul and feeder service concept of transportation for Western Alaska? Couldn't it be provided by existing non-subsidized carriers?

Answer. Answering the second question first, yes, the existing non-subsidized carriers would provide a line-haul and feeder service to Dutch Harbor similar to what APL has proposed. In fact, Foss has sought since last Fall to arrange such a service with Aleut Alaska. We understand that Sea-Land has also offered to discuss such a project. The answer to the first question requires a good ideal of research and the definition of some assumptions to come to a full, credible answer. The problem lies essentially in the fact that to provide feeder service to some of the very small communities would mean either that the service would be very infrequent or that it would have to be subsidized by revenue from cargoes moving to or from other points. Feeder service to and from the major processing points (such as King Cove, Akutan, Beaver Inlet) would have to be scheduled in accordance with the seasonal levels of traffic to and from those points.

Question. Do the non-subsidized operators have excess capacity in all weeks other than peak salmon season?

Answer. Yes. We understand that excess vessel capacity is available all year with the possible exception of peak salmon season. As noted elsewhere in the hearings, however, equipment shortage during the King Crab season, when it occurs, involves refrigerated van availability.

Question. Will APL help alleviate the problem during that peak season?

Answer. We do not believe so. As noted in the Williams-Kuebelbeck report, APL's present vessel utilization indicates it has no capacity for moving cargo from Dutch Harbor/Unalaska southbound. In theory, however, it might make available space on its vessels moving from Asia to the United States and thereby provide some capacity during salmon or other seasons. This, however, is entirely dependent upon APL's ability to co-ordinate its Asian cargo with the heavy peak volume of cargo coming from Dutch Harbor/Unalaska.

Question. Is the problem at all related to the practices, operation, or capacity of the seafood processors.

Answer. Yes. Many factors other than transportation capacity or frequency affect the transportation flow. For example, construction of large storage capacity by processors would reduce or spread out peak demand periods and better enable existing transport capacity to meet those demands. This is being done by Trident Seafoods at Akutan, which is building a seven million pound capacity cold storage facility. Another example of an effect on transportation flow lies with the length of the fishing seasons. Thus, if somehow the harvest of especially the King Crab could be spread over a longer period of time, the pressure on processors and the transportation system would be reduced to a much more manageable level.

Question. Are a sufficient portion of the containers APL intends to provide refrigerated and thus suitable to the transportation of seafood?

Answer. Information is not available to answer this adequately. APL has not indicated how much of which type of of equipment would be dedicated to this service. As of the past Summer, however, it is our understanding that APL's excess refrigerated capacity moving to Asia was zero out of Seattle, indicating that APL may well have a shortage of equipment and/or reefer capacity.

Question. What form of government benefits do the "nonsubsidized" carriers receive? (e.g., loan guarantees, use of capital construction funds, government contracts such as mail or military, purchase of government owned vessels at below market value).

Answer. Foss Alaska can only speak for itself on this question. Some of the equipment used by Foss Alaska in its Aleutian Island and Westward Alaska services was financed under the mortgage guarantee program extablished by Title XI of the 1936 Act. (This program is available to all U.S. citizen carriers.) The barge currently used by Foss Alaska in its Westward Alaska service is covered by a capital construction fund agreement. (Again, this program is available to all U.S. citizen carriers.) Foss Alaska also holds a contract to transport goods to and from the U.S. Navy facilities at Adak. This contract was awarded to Foss as the low competitive bidder. It is not a benefit from the government to Foss. Indeed, the benefit rests here with the government for the rates under Foss' present contract are 15 percent lower than the rates were in 1979 under the previous contract which had been given to another contractor on a sole source procurement basis. Foss was recently awarded a contract to transport mail to Southeast Alaska. Again, this was awarded on the basis of competitive bidding and the beneficiary is the government, not Foss, whose bid again produced lower rates for the government.

Senator GORTON. Senator Stevens.

Senator STEVENS. Mine too. Sid, that was a forceful statement, but we will have some questions for the record.

Senator GORTON. Thank you very much.

Our next witness will be Max Soriano of Western Pioneer, Inc.

STATEMENT OF MAX D. SORIANO, VICE PRESIDENT AND GENERAL COUNSEL, WESTERN PIONEER, INC.

Mr. SORIANO. Thank you, Mr. Chairman.

My name is Max D. Soriano, and I am vice president of, and general counsel for, Western Pioneer. I have filed a statement with the committee and I would like that to be introduced as part of the record.

Senator GORTON. It will be included in the record in full.

Mr. SORIANO. Thank you.

I would like to address my remarks to at least one statement that has been made earlier this morning, and I respectfully take issue to the statement by Mr. Krukoff, when he characterized the vessels of Western Pioneer as being slow, inefficient and costly. I would like to advise the committee that we started operation in 1972 under a tariff that had been introduced and perfected and approved by the FMC in 1971, and that we have operated to this date, almost 10 years later, with an increase in cost to our customers, to the recipients of the cargo in that 10-year period, and the entire increase in our cost has been 31.8 percent, compared to a cost-of-living increase during that same decade of over 128 percent.

And Mr. Chairman, I would like to point out one thing further. In the shipping business, as you know, the cost of fuel is extremely important. When we started in operation in 1972, we were paying 11.3 cents a gallon for our diesel fuel. Today we are paying $1.004 a gallon. So when I say that our increase over that 10-year period has been 31.8 percent, I say that somewhat proudly. I do not feel that our customers have told us that we are running a highly costly and inefficient service.

We started out with one vessel in 1972. We have increased our fleet to presently five vessels. We have on the drawing boards two more vessels. In fact, we have let contracts for two more vessels to increase and improve our service. We have not let those contracts finally because of the impact that the APL proposal has on our operation. We simply could not survive if these proposed amendments go through. 35 to 40 percent of our entire business is done in the Dutch Harbor area, and we feel that with the unfair position that APL would have that we simply would not be able to serve the Dutch Harbor area, and by losing that business there, we would not be able to serve the other areas that we presently serve. We just feel that we would be out of business.

I think that we would not be the only losers. I think that our present customers that have helped us grow over this 9½-year period would also be losers, if, in fact, the APL amendent is approved.

We feel that presently there is an excess capacity in the nonsubsidized carriers. Presently right today, we can carry all of the freight northbound, and the only real pressure is for approximately 2 to 3 weeks during the height of the king crab season. At that time, in a normal season, we do not have sufficient capacity nor do our other nonsubsidized carriers. But in 1981 this was not true. Today, 1981, because of the small harvest of king crab, all of the nonsubsidized carriers have an excess capacity, and the projections for 1982 are no better than we are experiencing today.

The projections for 1982 would indicate that we have an excess capacity and our other nonsubsidized carriers have the same thing.

So gentlemen, I think it would be completely unfair, I think that it would destroy competition, and it would in the long run be to the detriment of the area that we're talking about, western Alaska, if the APL amendment or the proposal of APL is accepted.

Senator GORTON. Thank you, Mr. Soriano. And again, in the interests of time, I will submit additional questions to you. I assume you would be happy to answer written questions.

Mr. SORIANO. I certainly will.

[The statement follows:]

STATEMENT OF MAX D. SORIANO, VICE PRESIDENT AND GENERAL COUNSEL, WESTERN PIONEER, INC.

This statement has been prepared by Max D. Soriano, Vice President and General Counsel for Western Pioneer, Inc.

Western Pioneer, Inc. is the successor company to Pioneer Alaska Lines that commenced contract water carrier service to Western Alaska in 1958. In 1972 Western Pioneer, Inc. purchased the assets of its predecessor and has expanded the service by approximately five times since its inception in July of 1972.

Operating to and from the Pacific Northwest, Western Pioneer, Inc. serves the fisheries and the fishery related communities from Kodiak Island to the Aleutian Islands on a year round basis, and the salmon fisheries of Bristol Bay, Kuskokwim River, Yukon River and Norton Sound during the summer salmon seasons. During 1981 Western Pioneer, Inc. operated six vessels having a total capacity of 205,000 cubic feet of refrigerated cargo space. Five of these vessels are former navy yard—oilers which we have converted specifically for use in this trade to meet its very particular needs. The sixth vessel is a former navy yard—freighter which has been chartered by Western Pioneer, Inc. to help meet the shipping demands during the heaviest shipping season. The conversion work on each of these vessels is very extensive and costly. For example, the conversion costs for the last vessel that was added to our fleet in June of 1980 was $2.415 million.

During 1981 Western Pioneer, Inc. has maintained a weekly service between the Pacific Northwest and Western Alaska, with Dutch Harbor/Unalaska being the western terminal or turn around area. Through September 1981 we have had 36 calls at the Dutch Harbor area in 39 weeks. From early March through to September 15th we have scheduled a vessel departing from Seattle for Dutch Harbor every six days. The transit time to Dutch Harbor is from 7 to 10 days depending on the number of other ports that are called at enroute. We cannot, however, on an economical basis maintain a departure every six days because of the seasonal nature of the fisheries.

Without providing additional equipment, our company presently has an excess capacity in at least a five month period from November until the first of March in which we normally run only two to three sailings a month.

Almost inexplicably the 1981 King crab season, which commenced on September 15th, has also seen an excess of capacity by our company as well as several other carriers in the Dutch Harbor trade. This is caused by the relatively small production of King crab to date, well below the projected catch, which has made an excess capacity by the carriers at what normally would be the peak of the season and the year.

The bleak outlook for the 1981 King crab season has caused several of the processors to rekindle their interest in the bottom fishing industry, which although showing vast promise for future high volume shipping, has yet to materialize in the transportation of significant tonnage. We, as well as other nonsubsidized domestic carriers, have the present excess capacity to transport the bottom fish and increased tonnage of bottom fish would be welcomed to help smooth out the present peaks and valleys of the salmon and crab fisheries.

With this background, it is apparent that we are vehemently and unalterably opposed to the proposed amendments to sections 506, 605(a) and 805(a) of the Shipping Act of 1936. It is difficult to perceive why legislation is being considered which would inject the unfair competition of a CDS/ODS shipping company in the Alaskan trade at a time when the present service of all the unsubsidized domestic carriers is more than adequate to properly serve the communities involved. There is, in fact, a surplus of capacity by the unsubsidized carriers at all times except possibly a two week period during the King crab season although the surplus still existed during the 1981 season. It is normally true that during an extremely short period of fifteen to twenty days, at the height of the King crab season, the transportation equipment of the nonsubsidized carriers is placed under heavy pressure. But even with that pressure, all of the traffic is moved. Moreover, it would not be economically feasible to place into service a fleet of nonsubsidized vessels that could handle the product without heavy pressure during the times of absolute peak production and then be left unused or sparsely used for over eleven months of the year.

We feel that the letters that were received by the sub-committee, and that apparently referred to poor or inadequate service, simply do not fairly depict the actual existing service for 11½ months out of 12 months.

The letters were unquestionably sent at the urging of and the unsupported representation of American President Lines and do not reflect the considered judgement of the unbiased shipping community.

A question was raised in an earlier hearing regarding these proposed amendments as to whether an unsubsidized carrier could dilute the market share of the present carriers and, in effect, have the same result as a subsidized carrier diluting the market share. The answer is an emphatic no! Prudent businessmen simply do not invest many millions of dollars to serve a market that does not exist now or has no prospect of existing in the foreseeable future. To put an unsubsidized vessel on this run with the size, speed and cargo handling capacity comparable to the subsidized vessels operating in the international trade would be analogous to going squirrel hunting with a sixteen inch naval gun. The point is that the volume of shipping in the Dutch Harbor/Unalaska area is so sporadic and so indefinite because of the vagaries of the fisheries, that a huge investment designed to dilute the existing carriers' percentage of the market is doomed to failure before it is begun as long as the equation is based on a free market and a nonsubsidized competitor. It would be another story, of course, if subsidized carriers were given the opportunity to enter the trade whenever they felt cargo volumes would warrant it. Because they have the support of their subsidized operations in the foreign trade, the subsidized carriers do not have to worry about whether the sparse Alaskan trade could support their investment in equipment.

The impact on Western Pioneer, Inc. of authorizing a subsidized carrier in the Alaskan trade, and particularly the Dutch Harbor/Unalaska area, would be devastating. Our company simply could not survive such unfair competition and would have to discontinue our existing operations. But we would not be the only losers. Such legislation, which we violently and irrevocably oppose, would amount to the taking of private property without due process of law. It is incomprehensible to us that the Congress would seriously consider passing this legislation. It undermines the national interest and effectively undercuts our efforts to continue to improve our service between the Pacific Northwest and the Dutch Harbor/Unalaska corridor of Alaska.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. It has been repeatedly stated that approval of the A.P.L. proposal would make existing nonsubsidized carriers reluctant to commit additional capital in the face of a subsidized competitor.

Exactly how would it affect your current growth plans?

Answer. Our growth plans would not be executed. We could not rationally commit additional capital as our present capital would be jeopardized and, in our judgment, impaired to an extent that we could no longer continue in business.

Question. The A.P.L. proposal has been supported by some on the analogy that Hawaii may be served on a subsidized foreign trade voyage under an exception to the Act adopted with enactment under an exception to the Act adopted with enactment in 1936. Yet Hawaii was then served by one liner and one barge operator providing service to 800,000 people; Matson held a 90 percent market share. In Dutch Harbor today more than half a dozen operators compete to serve 55,000, and no one holds a dominant market share.

Do you believe the analogy has any value?

Answer. No. The difference in markets as reflected in the question demonstrates this. Also, it must be remembered that the exception for Hawaii was placed in the 1936 Act only to help existing U.S. flag carriers who claimed that their participation in the Hawaiian trade was necessary to enable them to compete in the Transpacific trade with foreign flag carriers. APL has not made that claim here and certainly could not reasonably make it.

Question. If A.P.L. successfully competes for northbound cargo leaving Seattle, thereby cutting into the already deficient amount of cargo available to nonsubisidized carriers, won't the nonsubsidized carriers have to raise rates on southbound cargoes to cover the costs of the round trip?

Answer. If A.P.L. were to obtain a strong segment of the northbound cargo we foresee that our operation could not survive. There would be a requirement for the services rendered by our vessels only during the one or two peak periods of the year which last for one to two weeks. The length of time that our services would be needed is so short that we could not retain the equipment on a year around basis.

Question. If A.P.L. provides predominantly northbound service to Dutch Harbor, will it be moving sufficient cargo to underwrite the costs of the Aleut Alaska feeder service?

Answer. On the surface it appears that a predominate northbound service could not underwrite the feeder service unless; (1) there is a large increase in northbound traffic, which does not appear imminent, or (2) there is an indirect subsidy from A.P.L. to Aleut Alaska to maintain the feeder service, or (3) there is a change in the shipping habits of the major north and south bound shippers who tend to ship northbound with the carriers who can also give them significant service for their southbound products.

Question. Were A.P.L. to successfully compete for cargo to and from Dutch Harbor, wouldn't the impact on the unsubsidized carriers be compounded in the sense that not only would they attract cargo away, but it would be the higher valued container cargo?

Answer. Yes, very definitely. We would be out of business.

Question. What are the advantages of the line-haul and feeder service concept of transportation for Western Alaska?

Answer. There are no advantages. As far as we are concerned, we can and do efficiently serve the smaller ports on our linehaul voyages on a year-round basis, contingent only on the demands of traffic. Moreover, the present carriers furnish more services into Western Alaska on a non-subsidized basis, then is contemplated by the A.P.L. proposal. As question No. 3 states, there is already a deficient amount of cargo available for the present carriers and, we believe, the A.P.L. proposal would bring absolute chaos to the Western Alaska transportation system.

Question. Couldn't it be provided by existing nonsubsidized carriers?

Answer. It could, but we do not think it is necessary. Even though there is presently a deficiency in the amount of cargo available to the existing carriers, new capital expenditures are contemplated to reduce the pressure during the relatively short peak periods and to be prepared for the advent of significant tonnage from the embryonic bottom fishing industry.

Question. Do the nonsubsidized operators have excess capacity in all weeks other than peak salmon seasons?

Answer. Yes, except that there also is generally a shortage of capacity at the peak of the King crab fishing season for a 10 day to 14 day period. However, this was not true for the King crab season of 1981 as there was an excess of capacity available. The 1982 projections show that there will be an excess of capacity for the King crab season again.

Question. Will A.P.L. help alleviate the problem during the peak seasons?

Answer. Apparently not. Their vessels are running full eastbound from the Orient and their primary commitment, and reason for their subsidy is the foreign trade. Only on a secondary basis is there a commitment to the eastbound domestic commerce. After learning this, we understand that several major shippers withdrew their earlier tentative support of the A.P.L. proposal.

Question. Is the problem at all related to the practices, operation, or capacity of the seafood processors?

Answer. Yes, the problem is intertwined with the problems of the seafood processors. If there were large public cold storage warehouses close by and accessible from the processing plants then obviously much of the product could be stored in the cold storage warehouses and shipped southbound over a much more extensive period. However, the costs are high to build these cold storage plants and they are critically needed for such a short period that to date it has not been economically feasible to do so. The processors therefore have a similar dilemma to that of the carriers. The carriers cannot economically construct sufficient vessels and equipment to carry all of the product during the very few peak periods and then have the vessels and equipment idle or sparsely used over the remainder of the year. Likewise, the processors cannot build, or for that matter even economically use a cold storage plant close to their processing facility when they critically need that facility only a few short weeks out of the year.

Question. Are a sufficient portion of the containers A.P.L. intends to provide refrigerated and thus suitable to transportation of seafood?

Answer. The answer to this question depends on the degree of commitment that A.P.L. makes for the southbound cargo. The problem is not only the type of containers but they must be dedicated to the domestic service and the vessels must be prepared to forgo foreign commerce to have the space available at Dutch Harbor for the refrigerated containers. The economics of such an arrangement appear to be working contrary to such a dedication by A.P.L. Their vessels would have to forgo the foreign commerce, even though all the costs to participate in that foreign commerce would already have been incurred.

Question. What forms of government benefits do the "nonsubsidized" carriers receive? (e.g., loan guarantees, use of capital construction funds, government contracts such as mail or military, purchase of government-owned vessels at below market value).

Answer. Western Power, Inc. is completely nonsubsidized. We do participate in the capital construction fund which allows taxes to be deferred to encourage the use of these funds for additional capital expenditures. The C.C.F. is available to every carrier and our participation in it does not, in any way, give us a competitive edge over another carrier.

Senator GORTON. Thank you very much.

We'll now proceed to panel No. 3, Mr. Eaton and Mr. Notti and the Honorable Eric Sutcliffe. We had originally also had on this panel, Mr. Coles, the director of State-Federal Regulations for the Governor of Alaska. He is not here, but a letter supporting Senator Stevens' bill and signed by the Governor, is here and will be included in the record.

[The letter follows:]

STATE OF ALASKA,
OFFICE OF THE GOVERNOR,
Juneau, Alaska, October 15, 1981.

Hon. SLADE GORTON,
Chairman, Merchant Marine Subcommittee, Committee on Commerce, Science and Transportation, Washington, D.C.

DEAR SENATOR GORTON: Thank you for this opportunity to express our views on S. 1682, a bill to allow vessels in the foreign trade receiving subsidy to transport cargo between the island of Unalaska, and the contiguous United States.

We are in support of the amendments submitted by Senator Stevens on the assumption that this will bring regular and more timely service to the Aleutian Chain. We first took a position of support for such an exemption in December of 1979. Since that time, we have reviewed and reaffirmed our position on several occasions, most recently and thoroughly in preparation for the hearing before Senator Gorton's subcommittee on October 16.

We understand concerns expressed about competition by a subsidized carrier over non-subsidized carriers, and would not support such an exemption for mainland Alaska. We feel, however, that the case for Dutch Harbor is an unusual circumstance and worthy of an exemption.

We appreciate your interest and consideration of this matter.

Sincerely,

JAY S. HAMMOND, *Governor.*

Senator GORTON. If each of you would introduce himself, you may proceed.

STATEMENT OF PERRY EATON, PRESIDENT AND CHIEF EXECUTIVE OFFICER, COMMUNITY ENTERPRISE DEVELOPMENT CORPORATION OF ALASKA

Mr. EATON. My name is Perry Eaton. I am president of Community Enterprise Corp. I'm also treasurer of Kodiak, Inc., 1 of the 12 Native corporations located in Kodiak. I've serve as chairman of the board of the Alaska Housing Finance Corp., which acts as a secondary market for 80 percent of the single-family mortgages in the State.

My professional background is banking and finance, and I believe the issues of transportation, as in industry hold the future for our State. I think in the decade to come, it will be one of the major industries of focus, and I believe that it holds one of the keys to local investments. The cost dependency and capacity of the current carriers has inhibited many areas of development that in other areas of the United States have just progressed far in excess of Alaska.

I will give you one example. The Aleutian Islands are an excellent grazing land, yet the lack of adequate transportation, competitively priced precludes this prize agricultural industry from ever getting off the ground. It never ceases to amaze me that New Zealand, an island located far away from anything, has as its major export meat products. Not only is development hindered, but the consumer, and I think this is terribly important, the consumer is traumatically impacted by the dependability and the capacity of current carriers.

Unlike the majority of Americans, consumers in rural Alaska can't run to their local store. There aren't any local stores. Many of the villages have one single little general store that meets the needs of the necessities, just minimal needs. One telephone in the village. One telephone. They can't run to a hardware store. There is no hardware store. They must order much of their annual needs from outside of their areas, particularly in the bush. Shipment takes all forms, from parcel post to barge. But if it is barge, a great amount of planning has to go into it.

Two common terms heard in the bush are the first barge and the last barge. These terms developed because of the freezeup of the rivers and their tributaries. And it causes considerable planning problems. The first barge leaves Seattle around April or mid-May, depending upon the carrier. It must be booked at least 2 months in advance, and most private consumers must pay prior to departure, in addition to the cost of goods to be shipped. The last barge leaves Seattle around the end of August. It also must be booked 2 months in advance. High density moments of transport. Money up front, before the goods are shipped.

Apply these logistical problems to a couple trying to build a new home in one of our villages. Think about it. They must plan 1 year in advance, finance everything for a minimum of 3 months without ever seeing any of their goods and services, and pray to God that everything gets there in one shipment, because if it doesn't come in, they have to fly it in. If you miss some of that ductwork out of your furnace, you have to fly it and you pay bulk rates, three times what it would take to get it on that barge.

Another example I am personally aware of, has to do with a double-wide mobile home, purchased in Seattle by a teacher in Selawik which is a village in Kotzebue Sound. The landed cost, set up, was $93,000. The unit cost was $17,500 in Seattle, $12,500 construction costs to put it up. The rest was transportation and lighterage. With all due respect, much of that was lighterage.

But a significant investment.

To summarize, you have heard from many experts today: attorneys, businessmen, shipping people, current users. But I would ask that we keep in mind the further development of the great resource-rich State, and at the same time not to lose sight of the small user who will benefit greatly from a more cost efficient, a more frequent, and an increased capacity that this amendment represents.

I strongly support this amendment.

Senator GORTON. Thank you. We will proceed.

STATEMENT OF HON. ERIC SUTCLIFFE, ALASKA STATE REPRESENTATIVE

Mr. SUTCLIFFE. My name is Eric Sutcliffe, and I'm the State representative from district 15, which includes all of the Aleutian Islands, the southern Alaska Peninsula, the Pribilofs and all of Kodiak Island, except for the city of Kodiak.

I am not here representing the State. But after spending the last 3 weeks phoning people and talking with different constituents, I think I am representing the general feeling of the constituents of district 15. I am here to speak in support of the feeder service as proposed by the Aleut Corp. What you've heard often today is the fact that the area is going to be booming with bottom fishing efforts and with oil in the Bering Sea. It is my feeling that almost all of these activities will occur in a few hub areas. They will occur in Unalaska, maybe Cold Bay, and Sand Point.

Most of the villages, of the 23 villages I represent and the villages further up north in western Alaska, will not be immediately directly impacted by oil and bottom fishing. Therefore, their economies are going to conceivably remain stagnant, and there will be no growth.

It is my prime goal in the legislature to develop self-sufficiency within these small villages. It is my feeling that it's only with a feeder service that originates in Unalaska that can go up to these villages and deliver goods and services and return with small amounts of locally produced product, which it is not feasible for the larger carriers to do, and deliver back to sort of a cooperative holding space in Unalaska, at which time, when the quantities were great enough, it could be shipped out to Seattle or wherever.

The carriers that now service the areas are all Seattle based. It is their objective to get unloaded immediately, and if there is a backhaul, get that done quickly and get back to Seattle.

A feeder service, I think, would justify the nature of its existence in Unalaska. It would be able to pick up product, small quantities, small tonnage, and deliver it back to Dutch Harbor. I feel the feeder service concept is extremely important to the growth of the economies of the small villages, And I think without a feeder service, we are going to remain the way we are, regardless of the tremendous growth that we all agree will happen.

I believe that the Governor of the State of Alaska's testimony has been in the record, and I would like to introduce a few constituents of mine that I think deserve a few moments of your time.

Larry Merculieff from St. Paul; Phil Tutiakoff from Unalaska; and Flore Lekanof from, I think he is living in Anchorage now.

[The statement follows:]

STATEMENT OF HON. ERIC G. SUTCLIFFE, STATE OF ALASKA REPRESENTATIVE

Mr. Chairman and members of the committee, my name is Eric Sutcliffe and I am the elected State Representative for District 15, an area which includes all of the Aleutian Islands, the lower Alaska Peninsula, the Pribilofs and the village of Kodiak Island.

My primary goal in the Alaska legislature is to assist the 23 villages in my district in attaining economic self-sufficiency. The development of viable economies in Western Alaska is a complicated task due to the remoteness of the area and the fact that no two communities are connected by either land or bridge. This means that each has to function independently, not having the luxury to share facilities or services.

Political realities in Juneau dictate that in order to justify the enormous costs of constructing docks and harbors in remote areas, there has to be some sort of economic payback to the State. Therefore, just because all the villages of Western Alaska are located on the fringe or in the middle of one of the richest fishing grounds in the world does not necessarily justify a legislator's request for major development type facilities.

It is this economic justification that long ago led me to the conclusion that the people in the communities of Western Alaska will never be able to develop their potential until a shipping company begins operating in the area on more than a life sustaining regularity. Until such time that a shipping company commits itself to not only delivering the basic necessities, but also takes the time and makes the space available to backhaul small quantities of locally produced products will these communities ever justify to themselves and the State that it is worth the effort or the money to pursue the development of new businesses.

I feel that the proposed Marine Feeder Service of APL and the Aleut Corporation will give to the communities and to the Legislature the confidence that is needed to justify the investments. Once the feeder service was initiated, cottage size industries could be developed utilizing already owned salmon boats or skiffs in a day fishery of long lining for Cod. Heretofore the possibility of such a small scale operation has been uneconomical due to the lack of tonnage necessary to justify the costs of transporting the finished product.

A feeder service would make it possible to have relatively small quantities of product picked up and transported to Unalaska where it could be stored in a cooperative facility to be later transported in economical quantities to the consumer.

A feeder service would also allow the communities to involve themselves in the red meat industry. There is no question but that cattle can be successfully raised in the Aleutians and the Alaska Peninsula. It has been done for over a hundred years and the only reason it has never been a true success is the lack of affordable transportation from the remote areas to the consumer.

A feeder service would also be available to pick up the waste products of salmon and herring processors and take it to a central facility in Unalaska to be processed into a meal for cattle feed, pet food or fertilizer.

The economic incentives have never been great enough for a Seattle based shipper to justify a feeder service as I have discussed. From my experience of owning and operating a restaurant in Unalaska, I know only too well of the economics of doing business in such a remote area. It appears however that the shipping economics have changed and that a "true feeder service" to Western Alaska is now possible.

STATEMENT OF LARRY MERCULIEFF

Mr. **Merculieff**. My name is Larry Merculieff, and I'm a resident of St. Paul Island, and I'm the president of the village corporation there, and also the chairman of the Pribilof Interorganizational Council, which is composed of all of the major organizations on St. Paul, and also on the board of the Alaska Native Foundation, which is a statewide nonprofit public foundation that services villages throughout the State of Alaska with technical assistance, and a member and chairman of the Western Alaska Fishery Loan Board of the Foundation.

And I'm speaking here today in my capacities as I just mentioned, and all of the organizations wish to go on record as strongly supporting the proposal. The one thing that is not mentioned in terms of the Pribilof Islands, it is in the middle of the richest, potentially the richest bottom fish area in the entire world. But under the present marine transportation system, it will be unable to be able to utilize its strategic position to develop as a marine shore-based facility, primarily because to develop the fishery activities out there at this time, the amount of backfall in fishery products would be so small, because we are developing, that none of these carriers that have talked here today would be able to come to St. Paul, unless it is, say, two times a year, until we develop enough products.

So that prevents us from getting into the fishing, and this also applies to the entire west coast of Alaska.

In 1979, a regional bottom fish conference was held on St. Paul, where 100 participants from all over the world, fishery experts, came and concluded at the end of the conference that coastal villages in Alaska will not participate in a meaningful way in bottom fishery development.

One of the primary constraints to this development is the transportation, because the costs are so high. Bottom fish products are so low value, that they cannot be competitive in world markets. And so an inability to open up these markets by lowering the transportation cost will prevent further development of the domestic bottom fisheries.

There is one statement, an important, subtle statement, made by one of the members in panel II, is that the freight service would be instituted if the backhaul justifies it. Now, this is very true, but in the Aleutians, and indeed, most western coast communities of Alaska do not by themselves have sufficient backhaul to make it economical, because the backhaul is primarily to Seattle or the operating cost of existing carriers is so high that low volumes just don't justify the traffic. And so it is done only, as they say, in a seasonal demand. But it would be viable if the backhaul destination is a few hours away instead of days away.

Their position is that we invested in fishery development in a large way to justify getting the service. But fisheries can't develop in western Alaska without first providing the service.

Thank you.

Senator **Gorton**. Thank you.

STATEMENT OF FLORE LEKANOF, CHAIRMAN, TANAQ CORP.

Mr. **Lekanof**. Mr. Chairman and members of the committee, I am Flore Lekanof, chairman of the board of St. George. This is a village corporation that represents the Aleut people of our island community. We are presently faced with a threat to our very existence.

For several generations, our people have been economically dependent upon seal harvests. For the last several decades, under the auspices of the National Marine Fisheries Service, Department of Commerce, under pressure from environmental and animal protection groups, the Commerce Department declared a 10-year moratorium on the first seal harvest at St. George in 1972, but continued to provide employment and supported the island economy. Now, however, it appears that the harvest will not be reestablished, and that, in fact, the budget-cutting efforts in this administration may soon terminate the National Marine Fisheries' support of the island economy.

In the face of all of this threat, the leadership and the people of St. George have undertaken an ambitious program to build a new and diverse economy based upon development of private industries, with the intent of achieving economic independence from the Federal Government.

Fortunately, there are resources at hand that could support a private economy, notably the rich fisheries of the Bering Sea, which are especially abundant around the Pribilof Islands. The backbone of our economy, of our economic program, is construction and operation of seafood processing and cold storage facilities, targeting especially on the crab and halibut.

We intend to export these products frozen, both to foreign and domestic markets, which, in turn, will require frequent and dependable sea transportation service. St. George presently receives transport services from Seattle four times a year. There is not scheduled transport service between the Pribilof Islands and Dutch Harbor. Considering that frozen hair crab, which is a target species, has a shelf life of 3 months, St. George must have transport services to Dutch Harbor every 30 days if its seafood marketing program is to be viable, and that transport service must be in place by November 1982, the time at which the island will export its first commercial shipment of frozen seafood.

We do not expect that APL will provide direct services to St. George; however, should the requested amendment enabling APL to provide domestic service between Seattle and Dutch Harbor be approved, the joint service between APL and the Aleut Alaska will enable the latter to provide the scheduled feeder service between Dutch Harbor and the Pribilofs that St. George will require for provisioning between Seattle and exporting to primarily Japanese markets.

We view establishment of such services and the reasonable rates that it would provide as vital to the success of our program to achieve economic independence based upon a private economy. If such service cannot be obtained through the Aleut Alaska-APL connecting carrier agreement, then we expect that St. George will have no choice but to look to Japanese freighters to carry our exports to market.

Mr. Chairman and committee members, we believe strongly that the requested amendment to sections 506 and 605(a) of the Merchant Marine Act of 1936, as proposed by S. 1682, will contribute significantly to the economic development of St. George and her sister island, St. Paul, and we urge you to support APL's request.

Thank you.

Senator GORTON. Thank you.

STATEMENT OF PHILEMON TUTIAKOF, CHAIRMAN, ALEUTIAN PRIBILOF ISLAND ASSOCIATION

Mr. TUTIAKOF. I am president of the Dutch Harbor Development Corp., chairman of the Unalaska Corp. of Unalaska, a member of the rural community action program statewide, and the State of Alaska chairman of the regional nonprofit corporation. My testimony is in the area that usually causes rooms to become quiet and cold, as it deals with human and humane services. Both Senator Inouye—well, Senator Inouye mentioned change; Senator Stevens mentioned development.

If the 1936 maritime amendments are ratified, the beneficial effects will not be conducive to dollar figures. There is most definitely room for improvement on surface transportation from Kodiak, the Aleutians, to points farther north. I am a veteran with practical experience of 18 years in the fishing industry, development, and I am probably in a minority, looking forward to oil or other developments in our region, on a reasonable, livable format.

Nothing today can match the Aleut/APL proposal in enhancing all phases of everyday life in not only our region, but most communities in the western part of our great State.

Mr. Chairman, you mentioned—one gentleman mentioned the problem he had with an anchor after Sea-Land had been established. Because it had been sent to Kodiak by mistake, it took a year to reach Dutch Harbor. Today it will probably cost you about $1,000 to get a car from Anchorage, regardless of the year the thing was built.

Thank you very much.

STATEMENT OF EMIL NOTTI, VICE PRESIDENT, ALASKA FEDERATION OF NATIVES

Mr. NOTTI. My name is Emil Notti. I am a past president of the Alaska Federation of Natives.

I am here on behalf of that organization, to support the position of the Aleut Corp., I have a written statement that I wish to be entered into the record, and I will just make a few brief statements in the interest of time. I will not comment on any legal subsidy matters. You have experts in another forum to determine what is a subsidy and whether it's fair or not.

Once you strip away the arguments of the big companies about what is a fair subsidy or even what is a subsidy, you must look at the effect of the existing freight rates on people. The Aleut Corp. does not receive a subsidy. They are asking you to enable them to compete through their arrangement with APL. They do want to make a profit for their corporation as well as to provide benefits of better service and lower freight rates to their shareholders, many who make their living by fishing. These lower rates would lower freight costs to ship in fishing gear, building materials, clothing, food, and petroleum products. As a matter of fact, the Aleut Corp. is not asking for a subsidy; they are going the other way, they are only asking you to enable them to compete. They have submitted a proposal in concept to the Bureau of Indian Affairs where the Bureau of Indian Affairs could save money by phasing out *Northstar III,* as well as saving the Government money, they could provide more frequent service at a lower cost to the Government.

I think we are only asking for what other possessions and States of the United States enjoy and that is the right to use these long-haul carriers in local trade. Whether they use it or not, they should be enabled, or have the right to do that.

And we are asking for that right. Whether it is ever used or whether it proves feasible or not, I think we should have the same opportunity. Thank you. And we do support the passage of S. 1682.

[The statement follows:]

STATEMENT OF EMIL NOTTI ON BEHALF OF THE ALASKA FEDERATION OF NATIVES

Mr. Chairman and members of the committee, My name is Emil Notti, I am here representing the Alaska Federation of Natives.

The Alaska Federation of Natives was founded in 1966 to work for pasage of the Native Claims Settlement Act. We have consistently worked on behalf of Native people in the areas of education, housing, jobs, and health.

We are here to support the position of the Aleut Corporation to amend the Merchant Marine Act of 1936 through enactment of SB-1682.

The Aleut Corporation was formed as a result of the Alaska Native Claims Settlement Act as a profit Corporation in the State of Alaska. They are seeking investment opportunities that not only make a profit for the corporation, but also will benefit their individual shareholders. You have heard or will hear the legal and moral arguments for passage of SB-1682. I will not repeat any of those statistics.

If the Aleut Corporation can make a profit and reduce the cost of a gallon of milk from the present $6.50 it seems only right that they should have the opportunity to compete which is all they are asking.

Many of the members of the Corporation are fishermen who would benefit in their profession from competition in bringing in fishing equipment and also benefit if rates could be reduced in shipping products out.

These far flung communities have some of the highest freight rates in the world. Many communities do not have airports and none of the island communities have a road system. A sea transportation system that is frequent, efficient, and competitive is vital to this remote part of Western Alaska.

The Aleut Corporation could chose to invest its limited capital anywhere to make a profit. To its credit it has chosen to invest in a venture within its own region that will benefit its shareholders with jobs and competitive freight rates that will help raise the standard of living.

The Alaska Federation as a state-wide organization strongly supports passage of SB-1682. We believe it will greatly benefit those American citizens that live in the furthest west communities in the Western Hemisphere.

Senator **GORTON**. Thank you very much.

And to the panel, we will have questions for you in writing.

Senator Stevens, do you have any questions you want to ask?

Senator **STEVENS**. No; I appreciate their presenting the positions of the Aleut community and the AFN. I don't have any questions.

I think it's a very straightforward presentation, and has raised a very necessary issue. And we thank you for coming to do it.

Senator **GORTON**. Thank you all very, very much.

Panel 5 will be Messrs. Anderson, Bollen, Binkley, Cowden, Jansen, and Jones.

Mr. Anderson, you may proceed.

STATEMENT OF A. JEROME ANDERSON, PRESIDENT, CLIPPERTON, INC.

Mr. ANDERSON. Mr. Chairman, I am the owner of three self-propelled, floating, processing boats in the Alaska area that we are discussing. I operate in the Akutan Harbor and more remote areas, including the Pribilof Islands. I consider the existing service in southwest Alaska adequate for the past 2 years, and for the next 4 or 5 years the seafood harvest predicted for our operation we also consider adequate.

I am concerned that the dilution of the northbound revenue presently carried by the nonsubsidized carriers results in an overcost for the southbound service, where about 90 percent of the handle is shipped out of Alaska either to the Orient or to Seattle. We are presently operating in the Pribilofs. We are at St. Paul. We notified our nonsubsidized carrier yesterday we had 50 tons of cargo. They are picking it up next week.

I have operated a container feeder service in southwest Alaska myself in 1979 and 1980, and we terminated it because we were unable to see any hope of making any profit, due to the erratic production.

Thank you.

[The statement follows:]

STATEMENT OF A. JEROME ANDERSON, PRESIDENT, CLIPPERTON, INC.

Mr. Chairman, my name is Jerome Anderson. Since 1976 I have been the president and owner of Clipperton, Inc., a seafood processor doing business in Alaska with 3 floating, processing ships, employing approximately 65 people, with an annual payroll in excess of one million dollars. Previous to being an owner, I have been associated with the fishing industry in one form or another since 1959.

The Clipperton's main operation is the processing of tanner and king crab which are caught in the Bering Sea and processed, for the most part, at Akutan harbor. In addition to the two species of crab, we also process and freeze herring and salmon from April through September.

I appreciate the opportunity to address this committee today for I am in opposition to S. 1682 for I believe it runs counter to the mood of the business community and it certainly runs counter to my own personal business beliefs. I believe that it is unfair for the government to sponsor, through the means of a subsidy, one business over others as is the case with the proposed APL/AASC operation. It only stands to reason that added tonnage in a market place which is already adequately served will have the net affect of reducing freight opportunities for those unsubsidized carriers and taking away revenues which previously made a direct contribution as a return on their investment. Obviously the matter only worsens if a new carrier is allowed to operate with a subsidy. It is one thing to add competition free from subsidy in an already overtonnaged market, for that is the American way, but to deliberately invite additional tonnage and then subsidize it is ludicrous, in my opinion.

I would not want this committee to think for one minute that transportation is always immediately available in our area of operation for that simply is not the case. As you might guess, or already know, the Alaska Peninsula is a very trying, difficult area to serve due mainly to weather conditions, fluctuating seafood catches, poor to nonexistent harbor facilities and a very unreliable communication system. However, over the years I have been able to work with those carriers who presently serve the Peninsula area. I have found the carriers to be flexible, helpful and genuinely concerned as relates to my needs as a shipper and I have every reason to believe that those nonsubsidized carriers will continue to meet those needs in the future as growth and other species of seafood develop.

While my testimony thus far is very supportive of the transportation which is already in place, I think it is appropriate that I bring to your attention the vulnerability we have as an industry during certain peak fishing seasons as relates to the movement of product southbound to Seattle. There is nothing in the proposal, as I understand it, between the Aleuts and APL that is going to significantly change that existing problem. According to the Williams-Kuebelbeck report prepared for the State of Alaska, which I have read and am familiar with, it is most doubtful that APL will be in a position to offer southbound space due mainly to the overbooked condition which exists from Asia to the United States. That being the case, the only way APL could offer space fom Alaska would be to purposely hold Asian bookings to a level that would allow for add-on traffic in route to the U.S. at Dutch Harbor. In my opinion, this is not practical for the following reasons:

(1) APL would run a great risk of offending year-round customers at origins in Asia so as to satisfy a short-term need in Alaska (5 or 6 weeks).

(2) In order to make it worthwhile, the business originating in Dutch Harbor would have to compete favorably with business that is already offered in Asia. This leads me to believe that if domestic space were offered, rate levels would have to be the same or greater than they presently are.

In closing, I would like to add that I have experience in operating a feeder-containerized service to and from some of the same areas that are proposed in the APL-Aleut agreement. I can state for the record that my experience was financially a disaster. In a two-year period my corporation sustained a real loss of nearly one-half million dollars. This loss was attributable to added transportation services on the part of three unsubsidized carriers—Sea-Land, Western Pioneer and Foss Launch & Tug. Additionally, APL entered the foreign market at the same time. There was not enough cargo for all carriers. Since the market has not grown significantly since that time, I fail to see any need for additional tonnage in the area, especially subsidized tonnage.

This concludes my testimony and I wish to thank you for the opportunity of being able to express my views. I am ready to answer any questions you might have.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. Are there fishery products in Western Alaska that are not reaching markets because of equipment shortages or inadequate or infrequent transportation services?

Answer. It would be rare to find fish products that are *not produced* because of lack of outbound transportation. Sometimes one or more producers are unable to move their pack out on schedule and would loose potential production but this normally would be taken over by another company with the capacity so the outbound weight would be the same. Even during the big peak days in Bristol Bay, when some producers may limit or stop their buying, others are actively soliciting more fish. In any event, the APL/Aleut program does not address outbound transportation.

Question. Are there fishery products whose quality, and therefore value, is diminished because of transportation problems?

Answer. If a producer suffers quality problems then it is usually his own fault for purchasing more raw material than he can process, store or ship.

Question. Will a predominately northbound service by A.P.L. alleviate the periodic capacity problems faced by the Alaska fishing industry?

Answer. Additional northbound service to Alaska will hurt the existing capacity by reducing total revenue. The existing carriers will then react by increasing southbound revenues and decreasing service, which is not an atmosphere that will produce more vessels or containers for our use.

Question. Is there any way to "stretch out" the fishing seasons in order to reduce the inordinate pressures now generated during very short peak seasons?

Answer. Fishing seasons in Alaska are set by the Alaska Department of Fish & Game and the Regional Council. Their motives are not normally affected by economics of the industry. Besides, in the case of salmon, the return to the streams to spawn rather quickly and our opportunities to fish them as they enter the streams are limited in time. The crab harvest could be spread out to regulate the harvest but I imagine it would be a nightmare to regulate and very costly in terms of total fuel consumed by the fleet.

Question. Won't existing non-subsidized carriers who now operate most of the year with overcapacity be able to meet the demands of any growth in the bottom fishery?

Answer. Certainly! Private capital has met all the needs to date that show a reasonable expectation of profit and stability.

Question. Is the bottom fishery about to expand dramatically, or are there other considerations than transportation preventing its development?

Answer. The bottom fishery will expand out of necessity in the near future, but due to the extremely poor crab forcasts for the next five years and not due to economics. Freight is not *the* inhibiting factor. It is a fact that we can sell fish to foreign processing ships in Alaska and then buy the finished product back cheaper than we can do it ourselves. Until this situation changes there will be no dramatic expansion.

Question. You note that, despite the inevitable peaks and valleys of production and distribution cycles in the fisheries industries, you have always moved your product to market expeditiously at reasonable cost, even at peak King Crab season. Your processing facility is at Akutan.

Would you say your experience is uniform among other fish processors in the Aleutians for Western Alaska?

Do they receive the same prompt, reliable service?

Would APL's service benefit you at all or would it benefit other processors?

Answer. We process at Akutan and several other locations on the Alask Peninsula including the Probilof Islands. We do have spot shipping problems as you might expect . . . when we are at Akutan one week, St Paul Island the next week and Chernofski Harbor the week after. (this just happened) However, we are aware and live with the supply problem and are satisfied with it as it is.

Our competition and ourselves protect our production against problems by building warehouses, using foreign bottoms for storage, chartering ships and barges for peak times and I think overall, we are all pretty much satisfied with what we have. I certainly am.

APL/Aleut proposal would certainly benefit Dutch Harbor processors on the two days per month they propose calling with Northbound cargo. On those two sailings the service would be better than presently available but the rest of the time it would be inferior. Feeder service from Dutch Harbor to remote areas is not self supporting in my estimation and would have to be subsidized in some manner. As I testified, I operated a 12 container feeder ship for two years and was forced to give up as the rates I was required to charge to break the feeder service even would not allow the shipper to be competitive. From my understanding of the APL/Aleut proposal, this service might be slightly less expensive initially, but the frequency would not be adequate and surely the feeder expenses would have to be passed on to the consumer eventually.

Senator GORTON. Mr. Bollen?

STATEMENT OF MICHAEL D. BOLLEN, DIRECTOR, PROCUREMENT AND DISTRIBUTION, PACIFIC PEARL SEAFOOD, INC.

Mr. BOLLEN. Thank you, Mr. Chairman. My name is Michael D. Bollen. I am director of procurement and distribution for Pacific Pearl Seafood, Inc., which is headquartered in Bellevue, Wash., with five plants in Alaska. I appreciate the opportunity to appear today to testify in opposition to S. 1682.

For the record, Mr. Chairman, our company was founded in 1940. We currently have five facilities, which are located in Seldovia, Kodiak, Dutch Harbor, and Captain's Bay, Alaska. In 1980 we processed some 23½ million pounds of seafood, primarily king crab, snow crab, and shrimp. Most of our product is brought to Seattle for distribution in the United States.

Mr. Chairman, I have submitted a written statement which I would like entered into the record.

Senator GORTON. It will be.

Mr. BOLLEN. I would like to confine my comments right now to several points. It is our belief that we have adequate service in the Dutch Harbor area. We have had some peaks and valleys where there have been some temporary problems; however, existing carriers, through a dialog with the shippers, have grown with the fishing industry and the area.

The need for the service as it relates to king crab and snow crab is declining. If you compare 1980, with 1981, the season we are presently processing right now, we will have an approximately 1,240 40-foot van equivalent decline in the need for service. This is due to the lower king crab harvest. The latest figures coming from the department, the Alaska Department of Fish and Game, indicate that this decline will continue in 1982, and quite possibly into 1983.

Our company is concerned that this proposal could drive existing carriers out of business, carriers whose whole business is built around servicing the companies and the citizens of Alaska, and that we would face a service provided by a carrier whose primary business is in the Far East. We feel that this would be of detriment to our development, our fishing capacity in the Alaska area.

Thank you, Mr. Chairman.

[The statement follows:]

STATEMENT OF MICHAEL D. BOLLEN, DIRECTOR, PROCUREMENT AND DISTRIBUTION, PACIFIC PEARL SEAFOODS, INC.

Mr. Chairman, my name is Michael D. Bollen. I am director of Procurement & Distribution for Pacific Pearl Seafoods, Incorporated which is headquartered in Bellevue, Washington, with five (5) plants in Alaska. I appreciate the opportunity to appear today to testify in opposition to S. 1682 which is intended to allow a water carrier currently receiving subsidy from the U.S. government to enter the domestic trade to southwest Alaska. I'd like to explain to this Committee why our Company feels that over the long term this amendment could upset the balanced transportation network we all have worked over the years to achieve to the great detriment of southwest Alaskan shippers and residents alike.

For the record, Mr. Chairman, our company was founded in 1940. We currently have five (5) facilities which are located in Seldovia, Kodiak, Dutch Harbor, and Captain's Bay, Alaska. We employ some 770 people, 280 of whom live in Alaska. In 1980 we processed 23.5 million pounds of seafood, primarily King Crab, Snow Crab, and Shrimp, valued at around $71,000,000. Most of our product is brought to Seattle for distribution in the United States.

Over the past few years Pacific Pearl has relied on many of the water carriers here today to provide service to and from its facilities in southwest Alaska. From time to time we have encountered certain problems, such as van shortages due to abnormally high production levels, or delay in vessel arrival due to severe weather conditions, but we have found that when a problem arises we are usually able to sit down with the carrier involved and work it out. It is our mutual interest to do this.

In view of this I can state here today that we at Pacific Pearl feel the present water service to and from southwest Alaska is adequate and we are satisfied that as future development in the region brings increased demand for transportation service, the privately owned, non-subsidized water carriers will rise to the challenge.

We are anxious to appear before you today to make this statement for the record, Mr. Chairman, and to discuss a proposal which threatens, in my view, to unravel this presently adequate water transportation system. The proposal to which I refer, of course, is that between American President Lines and the Aleut Alaska Shipping Company to provide a joint water service to communities along the Aleutian Chain. Let me touch briefly on my concerns.

First let me address the question of service.

In their public statements regarding their proposed venture, APL and Aleut Alaska assert that service to Dutch Harbor and—more importantly—to the small, outlying communities in the Aleutian Chain will be vastly improved. The truth of this, of course, depends in the first instance upon the commitment and reliability of the line haul carrier. yet, unlike the non-subsidized carriers which offer service dedicated to southwest Alaska, APL views this service as incidental to its Far East trade and, in fact, will provide it only on space available basis. As evidence of this uncertain situation the Kuebelback & Associates report points out APL thus far has not guaranteed Aleut Alaska space either northbound or southbound, nor has it dedicated a portion of its present container fleet—upon which the Aleuts must rely—to the trade or agreed to add new containers to support this domestic service. Beyond the question surrounding APL's role in the venture is the ability of Aleut Alaska to meet the ambitious schedule of port calls it has proposed for its feeder service. I am not qualified to challenge their projections but have sufficient knowledge of water transportation and weather conditions in the Dutch Harbor area to believe that the equipment constraints presently facing the company may cause this to be unrealistic.

Let's assume, however, that both companies resolve these problems. Simple economics suggest that as APL achieves a greater share of the trade to southwest Alaska, that which is available to the other carriers will be reduced, forcing them to reduce their capital and service commitments commensurately.

I know that many Alaska state officials, as well as many residents of the region, foresee an economic development that will support, if not demand, new service. We hope such development occurs since we too stand to benefit very substantially if it does. But I believe it is simplistic to think that such development, at least in the near term, will, in fact, occur. In fact, the need for transportation as it relates to our operations in the Dutch Harbor area has declined in 1981 versus 1980. We expect this reduction to continue in 1982 and quite possibly into 1983. This reduced transportation need is directly related to a decline in the King Crab and Snow Crab resource in the Bering Sea. The following are the catch statistics for the years 1979, 1980, 1981 and a projection for 1982:

Season	Live weight snow crab/lbs.	Live weight king crab/lbs.	Total pounds
1979	74,000,000	132,000,000	206,000,000
1980	74,000,000	141,000,000	215,000,000
1981	80,000,000	[1] 60,000,000	140,000,000
1982 [2]	32,000,000	60,000,000	92,000,000

[1] Season is in process at this time with these figures being a best estimate of catch results by the Alaska Department of Fish and Game.

[2] Figures based on the Alaska Department of Fish and Game most recent estimates for the 1982 season.

The 75,000,000 pound live weight catch decline from 1980 to 1981 equates to a reduction of 1,233/40 foot van equivalents in transportation need. Based on this trend it is quite obvious that there is not a need in the near future for additional transportation service as proposed by APL.

Second, I would like to speak to the question of rates since I feel I have some experience in this area. In the short term it may well be true that rates offered by the joint venture on certain commodities may be lower than those quoted by the non-subsidized carriers. This should hardly come as a surprise. Anytime anyone can incrementally price a service instead of making that service pay its own way, he can enjoy special economies. This combined with the economic advantage enjoyed by the joint venture by virtue of the subsidy paid the line haul carrier means a cost advantage that others not similarly situated simply cannot match.

For us at Pacific Pearl the questions is far from academic. If a venture is permitted to operate with a cost advantage that cannot—I repeat—cannot be matched by its competitors the day will come when those competitors are no longer in the trade. I believe history has shown—in Alaska and elsewhere—that when this happens the price of service eventually creeps up again. While shippers may find the carrot of lower rates which is being dangled in front of them tempting at first blush, I believe most of us would be "cutting off our nose to spite our face" were we to support a proposal which in the end would likely bring us the worst of both worlds—high rates and low competition.

Mr. Chairman, the water transportation system in Alaska is premised upon vigorous competition among privately-owned companies; and it works. It is not always perfect but, as I stated earlier in my testimony, shippers and carriers are in a continual dialogue to improve it. To change the rules which have been in place for so many years with absolutely no guarantee that the situation will be improved—and some reason to believe that it might be made worse—is misguided. For these reasons we urge this Committee not to approve S. 1682.

This concludes my statement. I would be pleased to attempt to answer any questions you may have.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Question. Are there fishery products in Western Alaska that are not reaching markets because of equipment shortages or inadequate or infrequent transportation services?

Answer. No. There are spot shortages due to seasonal variation of catches; however, as a general rule, the transportation is adequate.

Question. Are there fishery products whose quality, and therefore value, is diminished because of transportation problems?

Answer. No. Possibly certain fishery products could be marketed fresh if there was faster transportation. However, A.P.L.'s proposition would not solve this problem.

Question. Will a predominatly northbound service by A.P.L. alleviate the periodic capacity problems faced by the Alaska fishing industry?

Answer. No. The spot capacity problem is southbound.

Question. Is there any way to "stretch out" the fishing seasons in order to reduce the inordinate pressures now generated during very short peak seasons?

Answer. The only way to stretch out the season would be if there was adequate cold storage space constructed in Alaska.

Question. Won't existing non-subsidized carriers who now operate most of the year with overcapacity be able to meet the demands of any growth in the bottom fishery?

Answer. Yes. The existing carriers have proved already that they can grow with the industry.

Question. Is the bottom fishery about to expand dramatically, or are there other considerations than transportation preventing its development?

Answer. No. The bottom fishery is not about to expand dramatically. The reason for this is that foreign countries with existing infrastructure and which receive government subsidies are allowed to cach these fish in our waters. These countries do not have to conform to any of our laws and they pay wages lower than the U.S. industry. These factors give them a competitive advantage that the U.S. fishing industry cannot hope to match.

Senator **GORTON**. Thank you.

Mr. Binkley?

STATEMENT OF JOHNE BINKLEY, PRESIDENT, NORTHWEST NAVIGATION

Mr. **BINKLEY**. My name is Johne Binkley, and I am president of Northwest Navigation, located in Bethel, Alaska. It is a small tug and barge company in western Alaska, and we operate two tugs and six barges there, and we service the entire length of the Kuskokwin River, which is about 500 navigable miles. We depend upon four line-haul carriers that bring cargo direct from Seattle to Bethel to tender us cargo in Bethel. And those four carriers are Foss, Pacific-Alaska Lines, Northland Services, and Southeast Barge Lines.

My concern about this legislation is that the APL/Aleut connection coming into Bethel and servicing outbound from Bethel will limit those carriers and the service that we get into Bethel, and that there creates an opportunity there for a monopoly of the APL/Aleut connection into Bethel and outbound from there that would seriously jeopardize my business. And I think that it would be a detriment to the people that I serve, if they just have one carrier to deal with.

This year, our operating season is between 120 and 150 days. This year we received 12 barges. That is, in my estimation, that is real good service. I hate to see legislation enacted that I feel would be a disservice to the people in my area. It's taken a long time to develop that transportation network, and I think that any legislation such as this would impair that; and if there is resource development in the future, that it will take a long time to gain that transportation system back to meet those demands of development in the area.

And I would just like to add my thanks to being able to come back here and testify before you folks, and for your time in listening to me.

[The statement follows:]

Statement of Johne Binkley, President, Binkley Co., D.B.A. Northwest Navigation

Good morning, Mr. Chairman. My name is Johne Binkley and I am President of Northwest Navigation, Bethel, Alaska. I am here to testify in opposition to S. 1682.

Northwest Navigation owns two tugboats and six barges. We operate from Bethel for about 500 miles up the Kuskokwim River serving the villages along the river. We haul general cargo, gravel and petroleum products. I operate exclusively on the river and am totally dependent upon interlining carriers to tender me cargoes at Bethel.

At present, we enjoy what I can only describe as excellent service at Bethel from the four line haul tug and barge operators that call there—Foss, Pacific Alaska Lines, Northland Services and Southeast Alaska Barge Lines. Last season, those carriers made 12 calls at Bethel in a season that lasted between 120 and 150 days. That service is better than that which we would receive from American President Lines. If Aleut Alaska ran a barge every time an APL ship came in, that would still be service only two weeks at the best.

However, if the APL Aleut Alaska proposal goes through, I won't have to worry about interlining at Bethel. APL will wipe out the existing tug and barge service. Virtually all the traffic that moves on the Kuskokwim River is traffic that arrives at Bethel from the lower 48. There are three tug and barge operations competing on the river now. But if APL moves in, it will wipe out the existing line haul carriers operating between the lower 48 and western Alaska. It will be a monopoly—a subsidized monopoly. APL/Aleut will move all traffic on a through bill, and will freeze out the existing/feeder carriers operating on the river. I and my competitors will be eliminated.

Aleut Alaskan Lines, in anticipation of the enactment of S. 1682, has started negotiations to buy out one of the three barge lines on the river, United Transportation. It has stated that it intends to provide the feeder service on the Kuskokwim River. Aleut Alaska can monopolize that service through its agreement with APL.

Nor will this result in better service to the people living on the river. There are severe peaks in the northbound cargo movements. It peaks in the spring after the ice breakup and it peaks again in the fall before the freeze-up. The four existing carriers can bunch their capacity at the peaks. If APL comes in and drives these carriers out of business, it will provide a type of capacity which is spread evenly over the year and will not be responsive to the nature of the demand for transportation service along the Kuskokwim River.

Northwest Navigation has existed as a corporate entity for only five years. But my family has run barge operations in Alaska for three generations, beginning with my grandfather in 1898. We originally started on the Yukon River but were driven out of business in the late 1950's by government-subsidized barge service on the Yukon. Now I face that threat again on the Kuskokwim River. It is not in the public interest to use taxpayers' dollars to put private businesses out of business, especially when, as here, they are not only currently providing the service but are providing better service than will be offered by the subsidized carriers that seek to invade this market.

Thank you.

Senator **Gorton**. Thank you.

Mr. Cowden?

STATEMENT OF FRANK COWDEN, FORMER VICE PRESIDENT, ALEUT CORP.

Mr. **Cowden**. My name is Frank Cowden, and I am appearing before the committee as an interested shareholder in the Aleut Corp., and as a fisherman. I have in the past served as vice president of the Aleut Corp. and as a member of the board of directors. And I was also vice president of Alaska Shipping Co. shortly after its organization.

My reasons for opposing the APL/Aleut proposal is that I feel that the Aleut Corp. will lose its present independence if the American President Lines/Aleut proposal is allowed to become effective.

American President Lines would be serving western Alaska only to and from Dutch Harbor, and that service is a secondary service for American President Lines. By contrast, the main thrust of business is to the Far East. And by contrast, the Aleut Corp. has—and should in the future look to western Alaska as its primary service area.

In my role as a candidate for a position on the board of directors of the Aleut Corp., I have had a thorough briefing on the American President Lines/Aleut agreement. I deplore the thinking that our corporation would embrace this agreement, when the projected loss for our freight operations in the next year are in excess of $1 million. We need businesses and ventures that will increase our treasury, as it is small, and not ventures that will help deplete it.

I do not feel that all of the study or the homework has been done on this venture. When I previously served on the board of directors of the Aleut Corp., and was an officer of that corporation, the board of directors unanimously voted to oppose the American President Lines proposal that was before the House. I spoke at that, and I opposed it. I still oppose the concept of American President Lines' serving western Alaska on a secondary basis.

There have been intimations that American President Lines is attempting to bail out the Aleut Corp., in its venture in the shipping business. In my judgment, nothing could be further from the truth. Instead of bailing out the Aleut Corp., I believe this agreement shall present an insurmountable burden to the Aleut Corp., and will deprive it of the ability to control its own financial destiny.

I am a fisherman. There was a fisherman here from the United Fishermen of Alaska, that spoke on the previous panel. I belong to UFA. I fish out there. I get my fish out. And I am very happy with the service I have, even though there are problems. And it seems that problems never disappear.

Thank you very much.

[The statement follows:]

STATEMENT OF FRANK COWDEN, FORMER VICE PRESIDENT, ALEUT CORP.

My name is Frank G. Cowden and I am appearing before the Committee as an interested shareholder in the Aleut Corporation.

I have in the past served as the Vice President of the Aleut Corporation and as a member of the Board of Directors. I was also Vice President of Alaska Shipping Company, shortly after its organization in 1977. I am presently a candidate for the Board of Directors of the Aleut Corporation and the election is scheduled for Saturday and Sunday, October 17 and 18, 1981.

I am vehemently and unalterably opposed to the present proposal wherein American President Lines and Aleut-Alaska Shipping Company are attempting to commence an operation that will attempt to provide a shipping service to Western Alaska.

My reasons for this strong and deep rooted opposition are as follows:

1. I feel that the Aleut Corporation will lose its present independence if the American President Lines/Aleut proposal is allowed to become effective. American President Lines would be serving Western Alaska only to and from Dutch Harbor and that service is a secondary service of American President Lines, subservient to the main thrust of their shipping service to the Far East. By contrast, the Aleut

Corporation has and should in the future look only to Western Alaska as its primary service area.

2. I feel that the proposal is doomed to failure from its inception because of the incongruous nature of the American President Lines and the Aleut concept of shipping service and the absolute physical inability to effectively use a container concept in so many of the small villages in Western Alaska that have no roads or ports facilities. If the Aleut Corporation attempts to use its present break bulk vessels to supplement the container concept exemplified in the tug and barge operation, it will require slow, costly and repetitive handling charges. In addition, thereto, it would require further sorting of non-fisheries cargo that its present break bulk vessels cannot legally carry. I am fully aware of the port facilities of every village and port in Western Alaska and can unequivocally state that only a mere handful of these villages have facilities that enable them to handle containerized cargo.

3. In my role as a candidate for a position on the Board of Directors of the Aleut Corporation I have had a thorough briefing on the American President Lines/Aleut agreement. I deplore the thinking that our corporation would embrace this agreement when the projected loss for the next year of operation is in excess of one million dollars. We need business ventures that will increase our treasury and not ventures that will help deplete it.

4. When I previously served on the Board of Directors of the Aleut Corporation the Board unanimously voted to oppose the American President Lines proposal to enter the domestic trade. Neither my constituents or I see anything in the American President Lines/Aleut proposal that causes us to change our minds on the concept of allowing American President Lines into domestic shipping.

5. I believe that it is completely unfair to the present non-subsidized carriers to allow a carrier that was and is subsidized to compete in the foreign trade to be allowed to compete in the domestic trade. The actual existence of these vessels was made possible by the CDS and their viability was assured by the ODS. The development of the port facility at Dutch Harbor was made possible by the sale of tax free State of Alaska revenue bonds, which has given American President Lines another form of subsidy in Western Alaska.

6. There have been intimations that American President Lines is attempting to "bail out" the Aleut Corporation's venture in the shipping business. In my judgment nothing could be further from the truth. Instead of "bailing out" the Aleut Corporation I believe this agreement shall present an onerous and insurmountable burden to the Aleut Corporation and will deprive it of the ability to control its own financial destiny.

Senator Gorton. Thank you.
Mr. Jansen?

STATEMENT OF VIC JANSEN, PRESIDENT, KNIK CONSTRUCTION CO.

Mr. Jansen. Thank you, Mr. Chairman.

My name is Vic Jansen, and I'm the president of the Knik Construction Co., and we operate in the western Alaska area and build airports and roads, and we've been in business since 1974.

We oppose any waiver that would allow subsidized carriers to operate between Seattle and Dutch Harbor. If American President Lines were allowed to handle this domestic cargo, we feel certain that the present transportation service we receive would be severely curtailed, and our ability to operate would be hurt.

The heavy equipment we use in our construction won't fit in containers. A DC-8 Cat is 13 or 14 feet wide and weighs 80,000 to 90,000 pounds, is too big and too heavy for a container, and it must be barged.

We have got four carriers going into the Bethel area now—Foss, Pacific Alaska Lines, Northland, and Southeast Alaska Barge Lines—and three feeder barge services—Northwest Navigation, United Transportation, and the Kipnuk Native Corp. If APL is allowed to implement its proposal, it could drive these barge lines out of business.

If APL takes all of the container business, we don't feel there will be enough noncontainer cargo to support the existing carriers.

In conclusion, I would like to urge this committee to reject American President Lines' petition for legislation creating a waiver of the Merchant Marine Act. As a user of the transportation services in western Alaska and as somebody totally dependent upon waterborne transportation, I have a vital stake in this issue. I am totally satisfied with the existing transportation that I receive, and I am opposed to anything that would endanger that service.

Thank you.

[The statement follows:]

STATEMENT OF VIC JANSEN, PRESIDENT, KNIK CONSTRUCTION CO., INC.

Good morning, Mr. Chairman. My name is Vic Jansen and I am President of Knik Construction Company, Inc. Knik Construction operates from Kodiak Island to Kotzebue and specializes in the construction of roads, airports and docks. Our base of operations is located in Bethel, Alaska. We have been in operation since 1974.

We oppose any waiver that would allow a subsidized carrier to operate between Seattle and Dutch Harbor. If American President Lines were allowed to handle this domestic cargo, we feel certain that the present transportation service which we receive would be severely curtailed and that our ability to operate in western Alaska would be endangered.

The heavy equipment we use in our construction projects will not fit in containers. For example, a DC 8 Caterpillar Tractor is 13 inches-14 inches wide and weighs 80,000 to 90,000 pounds. It is too big and too heavy for a container and must be barged. We now receive line haul service from four tug and barge operations at Bethel—Foss Alaska Lines, Pacific Alaska Lines, Northland Services and Southeast Alaska Barge Lines. In addition, we use three feeder barges services—Northwest Navigation, United Transportation and the Kipnuk Native Corporation. If APL is allowed to implement its proposal, it could drive all those barge lines out of business. If APL takes all the container business, there will not be enough noncontainer general cargo business to support the existing carriers. I don't know if there is enough to support any of the existing carriers. At a minimum, the service I receive would be drastically reduced. At worst, it would be eliminated entirely.

In addition, the tug and barge lines provide me with a lot of the materials I need in my construction projects—asphalt, oil and gravel. But if the barge lines lose their general cargo business, I am concerned that their ability to deliver bulk commodities will be adversely affected as well.

In conclusion, I would urge this committee to reject American President Lines' petition for legislation creating a waiver of the Merchant Marine Act of 1936. As a user of transportation services in western Alaska—indeed, as somebody who is totally dependent on waterborne transportation service—I have a vital stake in this issue. I am satisfied with the existing transportation service that I receive and am opposed to anything that would endanger that service. Thank you.

Senator Gorton. Thank you very much.

Mr. Ralph Jones.

STATEMENT OF RALPH S. JONES, PRESIDENT, ALASKA SHELL, INC.

Mr. Jones. Mr. Chairman, on behalf of my firm and my associates and many others in the fishing industry, I wish to extend our thanks for you to come back after your bereavement, and we offer our sincere condolences.

Also to the other members of the committee, I am sorry that Senator Inouye is not here, because I, to a certain extent—and certainly not to the large extent that the gentleman representing Crowley—I, too, served his State as far back as 1948 in the transportation business during the great maritime union tie-up that existed at that time.

When I first started in the operation of fisheries in the area that has been under discussion today, I had one young son. Today I have a great-grandson. I believe that I am the only individual in active participation in the fisheries today that started back in 1947 in the king crab industry in the Bering Sea. And during that time, I have, of course—and out of necessity—had to pay much attention to the transportation of the products produced by the factories in which I was involved.

And it was absolutely necessary for me to become intimately concerned and, to as large an extent as possible, become knowledgeable of the transportation business, just as a dairy farmer must become intimately involved with manure. And it is an inescapable part of his business.

I can state that almost every year—and usually several times a year—we run cost studies on why we don't haul our own products from this area. We haul enough, it seems. Other people say, "Gee, why don't you get your own freighters?" Well, we study it, and we say, "No."

I have presented a written statement to the committee, and I expect to be able to comment on that further in the days ahead, after familiarizing myself further with these issues.

I do wish to state that in my statement and during much of the testimony today, there was great attention paid to the fairness of a subsidized carrier operating in unfair competition with nonsubsidized carriers. And I don't wish to negate that area of unfairness.

But I do think that not enough sufficient attention has been paid to the feasibility, the financial and commercial feasibility, of the Aleut Corp. and APL proposal here. I happen to live in an area in Seattle where I can observe the Aleut Corp. base, and their largest vessel, the *Pribilof*, to my direct knowledge, has sat there all of this year. It has not moved. There has been no cargo evidently for it to carry, even during the advent of what was billed to be a very large king crab season starting in September.

From my office, I can look at the Western Pioneer Lines and see their vessels tied up week after week and month after month. And right down the channel a few blocks are loading zones for other tug and barge operations. And I can state unequivocally today that there is an excess of shipping capacity serving that area. It is overcapitalized.

I can also state that the fishing and processing industry out there is overcapitalized. The shipping of the product, of course, as I have stated and will reiterate, is of prime importance, but there are other factors involved that adequate shipping, subsidized or not, will not solve, and those chiefly revolve around the issue of cost of production, producing and delivering it in the marketplace as it relates to the market itself.

Now much has been said again——

Senator GORTON. Could you summarize, please, as quickly as possible?

Mr. JONES. My summary is that much has been said today that the lack of transportation and the high cost of transportation is inhibiting the bottom fish development in Alaska. I do not agree with that.

For instance, my company started producing bottom fish in February 1981, and is doing so today. And we are shipping cod to Seattle for 3.5 cents a pound. On some shipments we enjoy 3 cents a pound. I have experience almost worldwide in this particular trade, and I will state that I do not know of any area in any nation that can compare with that price for shipping cod for that distance.

The strength of the dollar in our European markets affected the price of—the profitability of our cod operation as much as 25 cents a pound this year, compared with only 3.5 cents total ocean freight expense.

Thank you.

[The statement follows:]

STATEMENT OF RALPH S. JONES, PRESIDENT, ALASKA SHELL, INC.

My name is Ralph S. Jones and I am one of the principal owners and Chairman of the Board of Alaska Shell, Inc., a seafood processor that operates at Akutan and other Western Alaska areas. I am here today to express opposition to S.1682. Alaska Shell, Inc., has been a foremost producer of shrimp and is one of the major producers of King and Tanner crab. We are enlarging our bottom fish operation and will soon be a significant factor in that fishery also.

I have been associated with the King crab processing industry from its inception in May of 1947 when I was one of the founders of Wakefield Fisheries, the company that introduced the King crab processing concept into Alaskan waters. In the early days of the King crab fishery we had water transportation service in Western Alaska only during the summer months. From early fall until very late spring the freight service for the transportation of the frozen King crab product was virtually nonexistent. It was necessary for the floating processor that we were using to leave the crab fishing areas and deliver the frozen product to Kodiak for trans-shipment to Seattle.

I have observed the transition of the marine transportation industry over the several decades since 1947. We at Alaska Shell, Inc. consider the transportation of our product to market as important as the original catching and processing the product. The timely movement of the product by refrigerated vessels away from our floating processing vessels enable us to continue processing without the costly interruption of our operation. I state, without hesitation or equivocation, and as emphatically as I can possibly describe, that the present service both north and south bound is by far the best that we have ever received. As you know, by its very nature, the fisheries are subject to peaks and valleys of production and distribution cycles. However, even during the peak periods of maximum production of the King crab season we have always expeditiously moved our product to market at a reasonable cost to ourselves as shippers.

I have had the opportunity to review the proposal of A.P.L. to amend the Merchant Marine Act of 1936 so as to enable that company to move cargo between Seattle and Dutch Harbor and beyond by the utilization of a feeder service. In my view, the proposal promulgated by A.P.L. violates the fair play doctrine that is the bulwark of this nation's economic system. To amend the applicable sections of the 1936 Act would, in my judgment, be unwise, capricious, and clearly unsupportable as sound national policy.

I can understand, and to some extent concur in the policy of providing a subsidy for vessels that are competing with foreign shipping interests in the foreign trade. However, to allow such a vessel, or vessels, to compete in the domestic trade undermines the original reason for granting the subsidy because obviously a vessel that is diverted to compete in the domestic trade is, by definition, not then competing in the foreign trade and consequently most forgo the foreign commerce to enable it to compete in the domestic sphere.

In addition to the obvious conflict between the original purpose of the Act and the thrust of the present A.P.L. proposal, there is the catastrophic impact of a subsidized carrier competing against existing non-subsidized carriers. If the present service were inadequate, I would be one of the first to urge an additional carrier into the Western Alaska transportation competition, as long as that carrier were not a subsidized carrier. However, as stated earlier I am very pleased with the transportation service we are now receiving.

In essence, I believe that all the carriers should be on an equal basis, without one carrier having an unfair advantage. If the amendments, as proposed by A.P.L., were to be enacted, then I believe, additional enabling legislation should be passed whereby the existing domestic carriers would receive an equivalent subsidy to that which is enjoyed by A.P.L. Under normal circumstances I would not advocate additional government subsidy be paid to the existing domestic carriers at a time when the national budget appears to be developing another deficit, but the A.P.L. proposal runs counter to our national concept of fair competition in the market place. I, therefore state, that if one carrier receives a subsidy, then all carriers should receive a subsidy in equal proportion and relative to the amounts of investment and operating costs.

A non-subsidized shipping company, that has been carefully nurturing its assets in order to obtain additional equipment to provide better service in the highly competitive domestic trade, should not find its investment of time and capital at risk and, in fact, in severe jeopardy because the rules of the game have been changed during the course of the game, and the changes are devastatingly detrimental to the survival of its business.

If the A.P.L. proposal is enacted, I predict we will have less service and higher costs because the non-subsidized operators will be forced out of business. Congress should continue to encourage the U.S. fisheries and fisheries related entities, but should repudiate a subsidized carriers' effort to compete in the domestic trade as a subsidized beneficiary with an unfair advantage.

[The following information was subsequently received for the record:]

QUESTIONS OF SENATOR GORTON AND THE ANSWERS THERETO

Your letter of October 28th has been forwarded to me from our Akutan office and due to delay in mails, has only just now arrived. I hope my answers to your questions will not be too late for your purposes.

Question. Are there fishery products in Western Alaska that are not reaching markets because of equipment shortages or inadequate or infrequent transportation services?

Answer. No.

Question. Are there fishery products whose quality, and therefore value, is diminished because of transportation problems?

Answer. No, due to the remoteness of the areas it is highly impractical and uneconomical to consider the fresh market which could only be shipped by air at prohibitive rates. Therefore, all fishery products are either frozen, canned or salted. Once processed, the products retain their quality for from one to three years.

Question. Will a predominantly northbound service by A.P.L. alleviate the periodic capacity problems faced by the Alaska fishing industry?

Answer. No. The periodic capacity problems are almost exclusively related to southbound shipments of product. The shipping companies suffer from lack of northbound freight to these remote areas. Quite the opposite from the ships that serve the populated areas which carry huge amounts of food, clothing, construction materials, etc., and are looking for back hauls.

Question. Is there any way to "stretch out" the fishing seasons in order to reduce the inordinate pressures now generated during very short peak seasons?

Answer. In the case of King Crab and Snow Crab the answer is "yes." This could be accomplished by setting the King Crab season back to say November 15th and the bad weather ensuing in November and December would slow the daily production rate and the available quotas would be spread over a greater period. The growing bottom fishery is directed toward a more level year around activity.

Question. Won't existing non-subsidized carriers who now operate most of the year with overcapacity be able to meet the demands of any growth in the bottom fishery?

Answer. Yes. Again bottom fishery activity would be more level year around. All existing carriers are fully prepared to put more ships or barges into service as demand grows.

Question. Is the bottom fishery about to expand dramatically, or are there other considerations than transportation preventing its development?

Answer. Transportation is the least of the problems facing the development of the bottom fishery. Production techniques, training top management, middle management and skilled employees, together with the need to break into a market already controlled by foreign interests, are a much greater deterrent to a "dramatic" expansion. A part of the marketing problem is weaning American users away from their traditional foreign suppliers. A secondary benefit to the development of the bottom fishery would be a positive impact on our balance of trade deficit.

Question. You state "without hesitation or equivocation . . . that the present service both north and south bound is by far the best that (you) have ever received." This is a high compliment to many of the gentlemen who are here this morning; yet, it would seem to me that the questions of interest to you are actually:

A. Is the service good enough?

B. Is it optional?

C. Would A.P.L. make it better?

D. Could you respond?

Answer. As per above,

A. On the whole, yes.

B. To the extent that we have several carriers to choose from, yes.

C. Possibly yes, on a short term basis.

D. Due to competitive factors, smaller shipping operations would probably be forced out of business thus reducing the number of companies operating and we would foresee less rather than more bottoms involved with fewer options to the shippers.

Question. A. Why are you, as a fishery processor, worried about whether the vessel serving you is subsidized or not?

B. Does it affect your operations?

C. Why do you believe APL's proposed service would lead to higher costs and less service, even if some non-subsidized carriers do withdraw?

Answer. Per previous question on page two,

A. For the reason stated in previous question.

B. Yes. We are dependent on the smaller operators willing to serve our area.

C. The ultimate success of APL's proposed service would be viewed by their Board of Directors' examination of their bottom line. The operating venture involving joining forces with the very limited resources of the Aleut Corporation is basically an unsound uneconomic operation which stands to lose millions of dollars. During the initial period extreme upward pressure on the tariff structure will be the natural result. Meanwhile one would expect some carriers to drop out. Eventually the Aleut Shipping Company would face bankruptcy. Who knows whether the elephant would rescue the mouse. Probably they wouldn't. APL's Board of Directors would probably eventually grow weary of continued losses in their area and liquidate the operation.

Senator GORTON. Thank you very much. And I should like to thank the panel, both this panel and the other participants here.

We will accept additional materials for the record until October 30 and will ask you to respond to written questions which we will submit to you within that time, if it is at all possible to do so.

We have, in addition, written statements from Anthony Vaska and Hal Drinkall, which will be included in the record.

With that, the subcommittee's hearing is adjourned.

[Whereupon, at 12:30 p.m., the hearing was adjourned.]

ADDITIONAL ARTICLES, LETTERS, AND STATEMENTS

STATEMENT OF HAL DRINKALL

My name is Hal Drinkall. I spent 21 years in Alaska, living in Kodiak, Seward and Juneau in that order. During those years I was in the baking business, seafood processing plan managers serving crab, and scallop fishing vessel owner, operator and four years as a Congressional Assistant.

I have been employed for the past ten years by N.O.A.A., Pribilof Islands Program, based in Seattle. Over the years, I was Community Development Officer, Operations Officer and Acting Program Director. One of my main reponsibilities was transportation of personnel and freight. I retired in May, 1981.

The Pribilof Island Program acquired a military vessel and adapted it for freight service to the Pribilofs. The vessel made three to five trips per year to St. Paul and St. George Islands with both governmental and non-governmental cargo.

Operating costs, inflation and limited ports of call pointed up the fact that the vessel Pribilof was too costly for the service provided; $500,000 in 1974 for four trips to the Pribilof Islands.

The government approached all water carriers servicing Alaska requesting proposals for freight service to the Pribilofs. Few responded to the request but in every case the cost was over and above the operational costs of the Pribilof or the ships available required that van handling equipment would be needed. St. George uses large bidars towed by a small motor boat to lighter cargo ashore. Even though two could be tied together to put vehicles etc., ashore they could not be adapted to vans. St. Paul lighters everything ashore by L.C.M. but dock facilities do not permit picking up loaded vans.

Searching for alternative means of transportation we approached the Bureau of Indian Affairs and discussed costs and scheduling. Savings projected were minimal, scheduled trips were cut in half and could not meet our needs.

We approached the Aleut Corporation, suggesting they buy the vessel and utilize it throughout the chain and the Pribilof Islands. They purchased the vessel and contracted with the Pribilof Island Program to provide service to the Pribilof Islands four times per year.

The Aleut Corporation subsequently made a trip by trip agreement with the Eastern Pioneers and later organized Alaska Marine Shipping Company with another shipping firm. The Aleut Corporation finally became sole owners and their subsidiary is known as the Aleut Alaska Shipping Company operating the Pribilof, Snobird, and Alaska Packer.

The M/V Pribilof became increasingly expensive to operate and eventually the Aleut Alaska Shipping Company was forced to tie up the vessel.

In order to fulfill the terms of their contract with the Pribilof Island Program the Company enters into bare boat charter agreements for each trip to the Islands.

The expanding shipping needs of the Islands, both government and non-government, make it imperative that a faster, more frequent, less costly service be available. Both St. Paul and St. George, faced with gradual government withdrawal, must look to the sea for survival. Improved transportation is a key. The Aleut Alaska Shipping Company, American President Lines agreement provides a means to turn the key.

STATEMENT OF CARL E. MOSES, PRESIDENT, CARL'S, INC.

Mr. Chairman, members of the committee, and staff: My name is Carl E. Moses, and I am a merchant at Unalaska, Alaska. I have a great interest in American President Lines getting authority to haul domestic freight to and from Dutch Harbor. With three and a half day service out of Seattle, the cost of doing business would be decreased considerably with subsequent savings for the customer. This also applies to shipping fish products south.

The lack of adequate surface transportation to outlying areas of Alaska has been a severe detriment to the development of same and contributes to the high cost of living. We have witnessed what good competitive transportation has done for Anchorage and the Interior. It is interesting that two or three years ago a major carrier to Anchorage lowered that tariff 8 percent and raised the tariff 25 percent to the Aleutian Chain area. It is understandable why they and others would protest APL's application. In my own business I welcome competition, even to the extent of a CEDC supermarket general store that opened at Unalaska last year with government backing.

At the present time the fish processors charter everything that floats with freezer capability to handle product out of the Dutch Harbor area. (Dutch Harbor and Unalaska are one and the same.) This is very costly. In addition large cold storage buildings are built to store product that cannot be shipped because present carriers are unable to provide adequate service during peak seasons.

Dutch Harbor is the hub of the greatest potential bottom fishing in the world and if we don't have the foresight to encourage the best transportation possible then we will be watching the foreign countries hauling it away and capitalizing on our loss.

It takes little foresight to envision that all of western Alaska could have weekly service with transshipment at Dutch Harbor and only ten days in transit in the ice free season.

At lease one of the protesters should be thinking about providing better service to their customers by using an efficient trunk haul with transshipment at Dutch Harbor. I can envision Adak having weekly service with a transit time of six days rather than the three weeks now and possible savings to the government.

Not to grant this authority would be like saying let's go back to the archaic Alaska Steamship days.

Please do everything in your power to grant American President Lines this authority.

Thank you for allowing me the time to address this committee.

STATEMENT OF RICHARD PACE, PRESIDENT, UNIVERSAL SEAFOODS, LTD.

Mr. Chairman, members of the committee, and staff: My name is J. Richard Pace, President of Universal Seafoods, Ltd. Universal Seafoods operates one of the largest processing plants in Dutch Harbor, Alaska. We are primarily engaged in processing crab, salmon, and herring.

The fish processing industry in Alaska is very sensitive to transportation and transportation costs, and it will become even more so as fuel and transportation costs continue to increase. The importance of transportation to the fishing industry cannot be overstated, and that is the reason I am here today to support the amendments of Sections 506 and 605 of the Merchant Marine Act of 1936.

Before explaining the conclusions of our deliberations on this issue, I believe it appropriate to provide some background to the issues involved. The king crab fishery of the Eastern Bering Sea has grown dramatically in recent years. This growth is due to many reasons, but the result of this rapid growth is that the industry has in the past produced record catches in short periods of time. This highly efficient fishery overtaxed every system in the remote areas of Alaska where crab is caught and processed. Community water, sewer, electrical, and other support systems are too small to even begin to handle the influx of processors, fishermen, and support personnel required to efficiently handle the product during this short period. Cold storage and freight systems have been grossly inadequate. The net result of all this activity requires that all segments of the industry become extremely ingenious in order to survive.

In 1981 we anticipated having the same transportation problems as in the past king crab seasons. In order to alleviate this problem, we chartered a tug and barge that held refrigerated containers. We then would have exclusive use of these containers for shipment of our crab. The 1981 king crab season had a very much reduced quota than we have had in the past: 40 million pounds versus in excess of 120 million pounds. However, as in the past seasons, we fully expected the 40 million pounds to be caught in a very short time period. It was not until after the season opened on September 15th and fishing actually started that we realized the king crab fishery would be much slower than anticipated. The crab has been extremely hard to find, and deliveries have been extremely slow. We now find that we would not have needed to charter the extremely expensive transportation as in the past. However, we still must pay for the charter regardless of our inability to fill the containers. We now project that our average freight cost to ship frozen king crab from Dutch Harbor to Seattle will approach $.50 per pound. Needless to say, this increased cost will have serious economic consequences for our company.

The fishing industry is one that operates on close margins. Our international and domestic markets are subject to considerable fluctuations. The high interest rates are having disastrous effects on our sales volumes and inventories. These problems, coupled with having to put ourselves in the position to also charter transportation to move our product out of Dutch Harbor, will have a dramatic effect on the profitability of our company this year. Had we been able to count on reliable and efficient transportation from this area to move our product, we could have saved tremendous amounts of money.

None of the existing carriers can afford to expand their operations to handle large volumes of freight during a short time period and then amortize their investment for this equipment during the remainder of the year when it would be essentially unused. Neither can we processors afford to build huge cold storages to hold our production until shipping is available and then see the facility empty for most of the year. We also cannot continue to either incur the cost of a time charter of a vessel or be at the mercy of a foreign buyer because domestic shipping is unavailable.

I therefore wish to support the American President Lines/Aleut Alaska Shipping Company application to carry freight between Seattle and Dutch Harbor. I do this with the understanding that any revenue generated from their freight will reduce the amount of subsidy paid by the U.S. taxpayer. Hopefully, the efforts to diversify by all segments of the industry will result in sufficient year-round production so that in the near future non-subsidized carriers can afford to expand to handle the needs of our industry. Until that occurs, however, I encourage your support of the application.

Thank you for the opportunity to appear before you today.

STATEMENT OF HON. ANTHONY VASKA, ALASKA STATE REPRESENTATIVE

I am pleased to have the opportunity to submit this written testimony in support of S. 1682, a bill to amend the Merchant Marine Act of 1936 to allow Western Alaska and the Aleutian Chain to take advantage of an existing and efficient international transportation system.

I am a member of the Alaska State House of Representatives. My election district (17) includes all of the Kuskokwim River Delta. Approximately 12,000 people live in the Yupik Eskimo villages in my district which has virtually no surface transportation, and, of course, dog sled and snow machine in the winter.

My work as a legislator has focused by necessity on resource development and transportation service within my district. No supplies, commodities, or products enter or leave my district except by water or air.

Air transportation is extremely expensive even in relation to air transportation services in other parts of Alaska and in other states of the union. This is so because of rising fuel costs, the extra transportation costs for getting aviation fuel to my district, higher equipment maintenance and insurance costs and the limited availability of larger and more efficient aircraft because of inadequate airport and navigation facilities.

The villages of my district do not get the same priority or service by regular scheduled common air carriers as do larger more urban areas of Alaska. The problems with air transportation will tend to get worse before they get better because of deregulation and general cut-backs in the federal budget.

This situation makes regular dependable and efficient marine transportation even more essential than it would be to any group of people who are without the usual benefit of road or rail transportation services.

There is substantial room for improvement and upgrading in marine transportation services for western Alaska.

I have examined the Aleut Alaska segment of the proposed joint service with American President Lines (APL). I believe their proposed additional services will benefit the people of my district in the following ways: First, Bring food stuffs, medical supplies and building materials on a more timely and adequate basis; second, help reduce the cost of living by lowering transportation costs. This can be accomplished in two ways: first, by lower tariffs resulting from the efficiency of using APL ships between Seattle and Dutch Harbor; secondly, by reducing spoilage, increasing competition, and avoiding the last barge problem; third, enable the price-sensitive fishing industry in my area to be more competitive by allowing fisheries products to get to market more efficiently and cheaply; and fourth, bring my constituents scheduled common carrier service to help cope with the inevitable strain on the limited transportation system which will result from oil and gas exploration and development in the Alaska COS.

I should explain what I mean by the last barge problem. When building supplies, for example, miss the last barge available because of lack of shipping capacity or because winter has set-in before space was available the builder loses a building season. The result is project delay with its attendant problems of inflation, cost over-runs, delay and sometimes the need for refinancing and new appropriations.

One of the major concerns in my district with OCS development in Norton Sound and the Bering Sea is the severe strain it will put upon an already too limited transportation system. My district is at the end of a transportation chain. Marine service to the oil industry and to Alaska's railbilt will be given priority over service to the rural communities of Western Alaska.

If the exemption works for Hawaii, it should work for Western Alaska. Surely, if, in 1936 or in 1958 (Statehood for Alaska) Western Alaska had had the fishing activity and the transportation needs it now has, together with the opportunity now available to use the underutilized shipping capacity of APL and the efficiency of its modern dock in Dutch Harbor in joint operation with feeder carriers like Aleut-Alaska, Congress would have given western Alaska equal treatment with Guam, Puerto Rico and Hawaii.

I urge the Subcommittee to recommend to the full Committee prompt and favorable action on S. 1682 which would amend the Merchant Marine Act of 1936 to allow U.S. international carriers to serve, without subsidy, the line-haul between Seattle and Dutch Harbor.

If I can be of any assistance to the Committee in its work on S. 1682, please feel free to contact me at the address below:

STATEMENT OF AMERICAN MARITIME ASSOCIATION

Mr. Chairman and members of the subcommittee, the American Maritime Association represents the operators of 100 American-flag merchant ships built without construction-differential subsidy and operating without operating-differential subsidy in the foreign and domestic commerce of the United States.

Of these 100 vessels, approximately 90 percent are eligible to serve our domestic trades which, by law, and except for a few clearly-specified exemptions, are reserved to U.S.-flag, non-subsidized carriers.

Thus we are extremely concerned by the introduction of S. 1682 which would amend the Merchant Marine Act of 1936 and permit a subsidized liner company, American President Lines, to serve the domestic trades between the States of Washington and Alaska.

The passage of this bill would be not only a major alteration of provisions of the Merchant Marine Act which, in our estimation, have served this Nation well, but would, in fact, threaten the very stucture of the domestic shipping industry which adherence to these provisions has made possible; and it would cloud the future for that industry.

The fact is that long-standing Congressional policy, as enunciated in the Merchant Marine Act, has made it possible for this Nation to obtain two separate and independent merchant fleets—a foreign commerce fleet principally supported by direct federal construction and operating subsidies, and a domestic fleet, promoted through the exclusion of foreign-flag and directly-subsidized vessels.

That the present law has worked well, and particularly from our standpoint as unsubsidized operators, is attested to by the fact that our domestic fleet today, with no direct federal subsidies, is virtually equal, both in ships and in tonnage, to our foreign commerce fleet.

This demonstrates again the historical truth that, given a stable environment with respect to the availability of cargo, unsubsidized operators always have been ready and able to respond to the needs of the trade and to make the investment necessary to serve those needs—as witness the massive investment of nearly $3 billion in new unsubsidized U.S.-flag tanker construction which has been made since the discovery of Alaskan North Slope oil.

We believe that the extent of the investment with which we are concerned here, not only in ships but in supportive facilities as well, has been made clear to the subcommittee in testimony it has received from the unsubsidized operators already serving the trade which APL now seeks to enter.

It must be borne in mind, however, that such an investment, in the highly competitive business of ocean shipping, can be made only after an exhaustive analysis of market potential, an intensive evaluation of supply and demand factors, and—above all—an expectation that the ground rules under which the investment is being made will remain unchanged.[1]

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[1] In this connection it may be noted that the exclusion for an "island possession or island territory of the United States" (later amended to reflect the statehood status of Hawaii) was contained in the original Merchant Marine Act of 1936, for the purpose of extending grandfather rights to existing services, so that even here there was no change in the ground rules under which unsubsidized vessels operated.

Particularly with respect to the gound rules, the introduction of a competitive element not anticpated or planned for not only can threaten existing investments but significantly reduce the likelihood of future ones.

In the present instance, it is our view, based both upon the testimony given to this subcommittee by unsubsidized operators, and upon our own observations of the dynamics of the domestic market, that the Alaskan trade already is being serviced; and that to the extent that future needs increase, unsubsidized operators, given the assurance of stability in our laws, will be willing and able, as they have been in the past, to respond to those needs.

On the other hand, as we have said, we see the economic forces now at work in the market place seriously disrupted by the entrance of an unexpected competitive element, and particularly a subsidized operator which will retain a major portion of its direct subsidy benefits, even with a pro rata payback of subsidy in its domestic trade.

Under such circumstances, there can be only one of two possible results: either the intruder into the trade will fail to gain a foothold; or, if he does succeed, it will be at the expense of the existing operators who will then be displaced, resulting in no net gain in service.

Moreover, such entrance, as we indicated earlier, would not only imperil the present domestic fleet but largely negate the ability of the Merchant Marine Act to provide this country with a two-fleet merchant marine, with a detrimental effect upon other goals of the Act, particularly in the area of national defense.

At the very least, we believe the burden of proof is on the proponents of this legislation to establish that it will not only benefit the people of Alaska but serve the best interests of the total U.S.-flag merchant marine and of the national well-being which the Merchant Marine Act seeks to promote.

QUESTIONS OF SENATOR INOUYE AND THE AMERICAN PRESIDENT LINES ANSWERS

Question. If S. 1682 were enacted, APL would still have to obtain written permission from Marad under Sec. 805, before it could operate in the Seattle-Alaska trades. If Marad finds that APL's operation would result in unfair competition or was prejudicial to the objects and policy of the Merchant Marine Act of 1936, it could not grant permission.

Isn't it accurate to say that the faster service and allegedly lower costs APL will be able to offer are the result of the size of vessels and service it has committed to the international trade route to Japan, and by terms of its subsidy agreements APL must serve that international trade route in any event. Thus, the resources APL would commit to the domestic leg of its voyage are not determined by the demands of the domestic market.

Put another way, the existing volume of trade in the Seattle-Alaska market alone would not support two APL Seamaster class vessels offering fortnightly service. Nor would the rates charged for the domestic service have to contribute to the fixed costs of APL voyages between Seattle-Japan, and vice-versa. Those domestic rates would just have to cover the incremental cost of providing the domestic service, e.g. subsidy payback, cost of cargo diversion.

All of these advantages to APL would flow from the fact that it has received government subsidies to operate in our international trades.

The unsubsidized carriers serving Western Alaska, on the other hand, must meet their fixed costs and voyage costs from revenues derived from serving the domestic trade exclusively. The resources they commit to the domestic trade will therefore be determined by the demands for cargo space, and the carriers' ability to meet that demand.

(A) Under these circumstances, wouldn't APL have an unfair advantage vis-a-vis its unsubsidized competitors?

Answer. APL does not believe that it will have an unfair advantage vis-a-vis its unsubsidized competitors. APL does have a more efficient transportation service because its vessels are larger and faster than competitors' vessels and because one leg of the transportation service proposed is incremental to a movement in the foreign trade.

However, these advantages do not simply flow from the fact that APL has received government subsidies. Its ODS subsidies merely allow APL to compete against foreign carriers which have much lower manning scales, lower wage rates and other labor advantages such as liberalized work rules and pension benefits. By contract APL is required to build ships in U.S. yards; and APL receives CDS in order to have a chance to compete against foreign competition or U.S. carriers in the foreign trade which have constructed their ships in foreign yards (e.g., Sea Land) at substantially lower cost.

In other words, any carrier transiting from Seattle to Japan and stopping at Dutch Harbor would potentially have a competitive advantage over a carrier transiting from Seattle via intermediate points to Dutch Harbor and back. While APL 's subsidy provides a partial benefit to compete in the foreign trade,[1] that subsidy in and of itself does not create a competitive advantage. The configuration of the transportation service and the vessels employed create a more efficient service; and it is the efficiency, not the subsidy which creates the competitive (*i.e.*, operational) advantage.

(In addition, the statement that the Seattle-Alaska market alone would not support two APL Seamaster class vessels offering fortnightly service may not be correct. APL is studying that market in light of proposed OCS and bottomfishery development to determine whether the Seattle-Alaska market will support direct service.)

APL does not believe that its more efficient proposed service presents an unfair competitive advantage under Section 805(a) of the Merchant Marine Act, 1936. Apparently, the unsubsidized carriers share our belief; otherwise, they would not be fighting so vigorously against S. 1682 in Congress and would, instead, depend upon defeating APL's proposal in a section 805(a) proceeding.

One needs only to look to the experience in the Hawaii trade for confirmation of APL's view that competition by subsidized carriers does not present an unfair competitive advantage to unsubsidized carriers. It is the unsubsidized carriers that have prevailed in the Hawaii trade in the face of competition from subsidized carriers. In that circumstance, U.S.-flag carriers receiving subsidies in the foreign trade did not have an unfair competitive advantage over unsubsidized carriers to the extent that the subsidized carriers became predominant in the market. In fact as you know Senator Inouye, the opposite seems to be the case. During the modern era four subsidized carriers have provided service to Hawaii. Today, no subsidized carrier serves this trade.

Question 2. According to an account in the September 25, 1981 edition of the Journal of Commerce, Mr. Krukoff of Aleut Alaska said that the reason that Aleut Alaska turned down the joint service proposals of both Sea-Lands and Foss Alaska, but accepted APL's was because Sea-Lands and Foss did not offer the level of service APL did.

The unsubsidized carriers (Sea-Lands and Foss) would be required to make and put at risk, substantial new private capital investment in order to meet the requirements of Aleut Alaska.

APL, on the other hand, has made a relatively minimal investment in the Alaska export trade, has been the beneficiary of ODS, which helped it establish its foreign trade, and CDS which helped acquire the very vessels it will use in the Alaska trade. As a result, APL does not have to make any additional investment to meet Aleut's requirements, and does not have to put its existing vessels and container investment at risk in the Western Alaska trade.

Doesn't this point up the competitive advantage a subsidized carrier has?

Answer As pointed out in the answer to Question #1, APL believes it does have an operational advantage over other carriers because APL offers a more efficient service. APL does not, however, believe that that competitive advantage is unfair.

In fact, it seems unfair to APL to deny the efficiency of the proposed service to communities in Western Alaska that depend upon water-borne transportation for the basic necessities of life. Of course, as a representative of the State of Hawaii you are acutely aware of the role which water-borne transportation plays in the lives of geographically-isolated communities (whether they are economically mature or immature). And, of course, you are acutely aware of the need to balance the interests of carriers with the interest of the shipping public in any determination of "fairness".

The question states that APL has made relative minimal investment. APL disagrees; it has invested more than $16 million in a terminal facility at Dutch Harbor. In contrast, Sea Land built a dock there at a cost of $1 million which it sold to the City of Unalaska for $1.5 million. And Foss made no additional capital investment when it obtained the Adak contract.

Question 3. If S. 1682 were enacted, Marad still could not permit APL to operate in the Seattle/Alaska trade if it found such operation would be prejudicial to the objectives and policy of the Merchant Marine Act.

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[1] The CDS program is really a negative support program as explained in APL's answer to committee Question No. 3, p. 29.

One of the policy objectives of the Merchant Marine Act is that the United States shall have a merchant marine "sufficient to carry its domestic water-borne commerce."

This morning the subcommittee will hear unanimous testimony from the unsubsidized carriers in that trade that if APL enters it, the effect on these carriers will be devastating, and some of them may be forced to withdraw.

In that event, competition will be lessened, and could even mean that outsized cargo which cannot be carried in containers would not move at all.

Given these eventualities, wouldn't APL's operation in the domestic trade be prejudicial to the objectives and policy of the Merchant Marine Act of 1936?

Answer. APL does not believe that the operation of the proposed APL/Aleut Alaska service would be prejudicial to the objectives and policies of the Merchant Marine Act, 1936, which include the objective of a merchant marine "sufficient to carry . . . a substantial portion of the water-borne export and import foreign commerce."[2] In short, APL does not believe that the proposed service of APL and Aleut Alaska will drive existing unsubsidized carriers out of the trade. APL has a completely different view of the transportation needs of Western Alaska than do the existing carriers. Specifically with respect to over-sized cargoes, APL believes that Alaska's Outer Continental Shelf development will provide substantial opportunity for existing carriers to continue to operate in the marketplace. As pointed out in the responses to Committee question No. 8, the Department of Interior has sixteen lease sales scheduled between now and 1986. A number of these lease sales will take place in Western Alaska. The transportation needs to establish 210 exploration wells, 97 platforms, and 3,203 development or production wells will create a market which is probably beyond the capacity of existing carriers and perhaps even APL (in joint service with Aleut Alaska) to meet.

As the testimony established, service to Western Alaska is not now sufficient to carry domestic water-borne commerce. Transportation to small communities in Alaska is wholly lacking. In addition, existing carriers cannot meet in a timely and economic fashion peak needs of the fishing industry. Finally, the development of the domestic bottom fishery in Alaska is being impeded because the merchant marine cannot carry domestic water-borne commerce in an efficient enough (i.e., cost-effective) manner to permit the development of the Alaska bottom fishery. In APL's view failure to permit the proposed APL/Aleut Alaska service would be prejudicial to the objectives and policies of the Merchant Marine Act of 1936 and the Government of the United States.

Question 4. According to one study, APL presently has no significant unutilized capacity which could be used for the southbound movement of domestic fish and fish products from Dutch Harbor.

I believe APL intends to handle the domestic Alaskan trade as a secondary service on a space available basis.

(A) Assuming the accuracy of these facts, APL will not furnish much, if any, additional container capacity for the southbound movements of fish during the peak seasons, will it?

(B) According to the same study, for the year 1980, the eight unsubsidized carriers serving Western Alaska, collectively had 15 percent or more unutilized capacity in each of the 12 months. In one month it was as high as 69 percent northbound.

To the extent APL will offer unutilized capacity in the northbound domestic trade, won't it be exacerbating an overtonnaging situation which now exists?

Answer. APL presently utilizes refrigerated containers to carry non-refrigerated dry cargoes from the Far East to Seattle. This is the direct result of much greater volumes of refrigerated freight going westbound to the Far East versus eastbound. In 1981, APL moved in excess of 4600—40 foot reefers from the Far East to Seattle in this manner.

Commencing in July 1982, APL will take delivery of the first of three new, large vessels capable of carrying 2500 twenty foot equivalent units (TEU's) each. This added tonnage will provide additional container capacity. Therefore APL will furnish additional container capacity for southbound movements of fish during the peak seasons. An economic decision by APL to move domestic cargo from Alaska to Seattle and thereby increase its own economic well-being is consistent with the 1936 Act and with other United States policies, such as those favoring the development of the U.S. bottom fish industry in competition with foreign importers of bottom fish products.

With respect to the allegation that APL would be exacerbating the over-tonnaging situation which now exists in the northbound domestic trade, APL believes it can improve service to the area by offering a service not presently available, namely the movement of fresh food to Dutch Harbor and surrounding communities. Secondly, assuming arguendo that there is excess capacity on the northbound service, the excess capacity is in vessels which are not common carriers and thus are not legally permitted to transport non-fisheries related products. Finally, assuming that the figures in Mr. Snavely's report are correct, in the remaining excess capacity is the result of the carrier's inability to market, or its lack of desire to market, services which are clearly needed in Western Alaska. Inability to market services may result from pricing which is too high. In APL's view, the need is there as evidenced by the testimony of businesses, the fishing industry and residents of Western Alaska. APL and the Aleut Alaska Shipping Company are prepared to meet that need with an efficient, low-cost service which existing carriers are not offering. In APL's view, the alleged over-capacity does not indicate that current transportation needs are being met. To the contrary, it indicates that the random, haphazard, non-scheduled aspect of transportation services in Western Alaska cannot be organized to meet present and future transportation needs which will promote development and improve the quality of life for citizens in Western Alaska. It indicates to us that our proposed service is deperately needed.

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[2] See the detailed response to Subcommittee question No. 8, p. 31.

Question 5. The objective of our subsidy programs is to assure that our merchant fleet is sufficient to carry a substantial portion of the cargo on all routes essential for maintaining the flow of foreign commerce of the United States. The trade routes between the United States and Japan are among these.

And APL, of course, receives subsidy for this purpose.

According to one study, APL has an insignificant amount of unutilized capacity in its Japan-Seattle trade.

Therefore, unless APL commits more vessels to that trade, it will most likely have to leave cargo on the dock in Japan, if it wishes to pick up an appreciable amount of cargo at Dutch Harbor.

(A) If this is the case, won't APL be defeating the very purpose for which it has received subsidy?

(B) As to cargo from Dutch Harbor (fish), would it move at a higher or lower rate than most of the cargo from Japan?

Answer. As discussed above, APL does not believe it will leave cargo on the dock in Japan, but if it did APL would not be defeating the very purpose for which it has received subsidy. In the first place, the preamble to the Merchant Marine Act, 1936 addresses the need to promote both foreign and domestic trade. Secondly, carriage by APL of fish products southbound would not interrupt the flow of cargo from Japan to the United States in any substantial way. As developed in the hearing, much of the movement of present fishery products southbound occur at peak periods. APL could respond to that peak without causing any major disruption in its movement of cargo on the trade routes between the United States and Japan. Finally, your question itself indicates (as do the answers above) that APL has more than one option if it wishes to pick up appreciable amounts of cargo at Dutch Harbor. It can commit more vessels to the trade or increase or commit larger vessels. In 1982, APL will add to its fleet 3 of the largest container vessels ever built. These ships were built in an American yard by American workers. With the addition of these vessels to its fleet APL will be able to accommodate any and all cargo.[3]

With regard to the question concerning whether fish from Dutch Harbor to Seattle would move at a higher rate than most cargo from Japan to Seattle, APL would respond as follows. Generally, based upon tariffs for the movement of fish products by existing carriers, the higher rated cargo for APL would be refrigerated cargo moving from Dutch Harbor to Seattle rather than dry cargo now moving in refrigerated containers from Japan to Seattle and points beyond. (See response to Committee question No. 14).

Question 6. Some have contended that exclusion of Alaska from the narrow exemptions in the Mechant Marine Act of 1936, was an oversight. I would like to quote from a Senate Report accompanying S. 3500, one of several bills which was considered in the process of enacting the 1936 Act, and I would appreciate your comments as to whether that quote supports the inference that exclusion of Alaska was an oversight in the 1936 Act.

In S. 3500 the granting of a construction subsidy has been limited to vessels to be engaged only in foreign commerce. It has been urged with insistence that a construction subsidy should also be authorized for ships to be used in the joint coastwise and foreign trade . . . while recognizing the merit of these contentions, your

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[3] See also response to Subcommittee question No. 14, p. 33.

Committee has felt that for the present a construction subsidy should not be authorized for the joint coastwise and foreign trade.

The bill makes an exception to cover the case of American vessels engaged in what would otherwise be foreign trade, but which call at ports of our island possessions, Hawaii and Puerto Rico. Likewise, exception is made for vessels engaged in the intercoastal trade but which are also engaged in foreign trade between intermediate foreign ports . . .

Answer. APL would not contend that exclusion of Alaska from the narrow exemption in the Merchant Marine Act of 1936 was an "oversight". APL, however, does contend that such exclusion of Alaska represents an historic anomaly. APL means by this that if the situation that exists today in Alaska had existed in 1936, Congress would have logically included Dutch Harbor, Alaska as one of the exemptions. Dutch Harbor is on an established foreign trade route and is geographically situated on a trade route in an almost identical position as Hawaii. In fact, it is actually further west from the United States than the State of Hawaii. Had Dutch Harbor been a point of commerce in 1936 (or at the time of statehood), APL believes that it, too, would have been included as an exception to cover the case of American vessels engaged in what would otherwise be foreign trade being able to stop at Dutch Harbor.

It should also be recognized that one could make an argument that Dutch Harbor as an island of a territory in 1936 qualified as an "island possession" and was covered under the exception until Alaska's Statehood. If any more detailed legal response is desired, APL would be delighted to provide it.

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